

The Economic Club of New York

2nd Annual

Women in Business Forum  
Return on Investment

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Investor Spotlight: A Conversation with Mark Machin,  
President & CEO, Canada Pension Plan and Ali Velshi

and

Visualizing the Data:  
Why Women-Owned Startups are a Better Bet?  
Frances Brooks Taplett, Global People Senior Director,  
Boston Consulting Group

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March 11, 2019  
New York City

Conversation with Mark Machin – Moderated by Ali Velshi

ALI VELSHI: ...and CEO of the Canada Pension Plan Investment Board. And we're going to have a conversation about what the board is doing related to the topics we're discussing, investing in companies that are moving the needle or trying to influence companies to move the needle, where it comes to investments having to do with women, where it comes to governance, where it comes to boards. So, all of the things that we've been talking about today, you did hear a couple of panels ago that money talks. And where major investors are able to outline what's important to them or what they want achieved, certainly the Canada Pension Plan Investment Board has had some success. Mark, I want to ask you, how you make the argument, what you do, what you decide the argument actually is with respect to diversity and proper investment and inclusion of women in companies. What is the argument you make, and how do you make it to companies?

Mark Machin

President & CEO

Canada Pension Plan

Well, the argument is very, very simple, from our point of view. That's based on all of the research we've done. We have done exhaustive research, external matter studies of a hundred different major analytical research, 76% of them show a positive correlation between better

financial performance and better diversity on the board. Only 3% have the opposite. And based on our internal statistical analysis of 3,000 companies, big data analytics, again, it's very, very clear that better diversity on boards and senior management teams leads to better investment returns, so, better profitability, better return on assets.

So, it's pretty clear. So to step back, our job at the Canada Pension Plan Investment Board, our job is to invest money around the world to make a maximum return without undue risk of loss, so that it's there for the retirement of 20 million people in Canada. We purely look at the world through that investment lens. That's what the Acts of Parliament that was put in place, that put us in place, back 20 years ago says. Maximize returns without undue risk of loss.

But when we look at that, and we look at the world, and we look at our investments, it's pretty clear based on all of that statistical analysis that I mentioned, we don't have to make a lot of arguments about things that are obviously correct. It's right, it's good. All things, like it may lead to better decision making. It's pretty clear based on pure cold statistics that it drives better returns. That's why we do it.

ALI VELSHI: Have you ever had pushback otherwise, because one of the discussions we've had today is metrics, right. How you're measuring this. We talked about the Gender Equality Index. Do you ever have somebody say, our returns are fine?

MARK MACHIN: In preparation for this, I thought it would be interesting, Adrianna is somewhere here, but I asked her to pull together a list of some of the excuses that we get when we go to boards. To say, we think, we're going to vote against the chair of the nominating committee of your board unless you improve your gender diversity and put women on the board. They come up with things like, and it would be no surprise to a lot of people in the room, but, we want to preserve the culture and dynamics amongst board members.

ALI VELSHI: Wow, somebody actually said that.

MARK MACHIN: Oh yeah. We don't want to have to censor ourselves. All of the good women have been taken. (Laughter) There's no qualified women in the industry. We're focused on other types of diversity. (Laughter). I mean I won't go on, you get the idea. There's a long list.

ALI VELSHI: I was expecting something more nuanced and sophisticated. (Laughter)

MARK MACHIN: That's the type of pushback. And there's a long list of other ones. But, I think they are clearly laughable. The one, for example, in the oil and gas industry, which is one that comes up a lot. The oil and gas industry, okay, so, there's not that many people in the C-suite in the oil and gas industry, but you don't need everybody on your board to be a geologist. And by the way, there's lots of female geologists as well. But that type of...this is extractive industry and that's probably another topic of conversation for a lot of people in here. It would be against the

extractive industries, but if you're investing, the board representations in those sectors, that, that's a common refrain, not enough women who are experts. But you need a diversity of different views on the boards as well, and people with different backgrounds as well.

There's plenty of senior women lawyers who could be on that board. I see women accountants, I see people with financial skills, so it's just a laughable excuse. But yeah, there's common push, there's often pushback.

ALI VELSHI: When you're looking for a company to improve its diversity, what are you mostly looking at. Are you mostly looking at board, are you mostly looking at C-suite? And if you're looking at C-suite are you looking at all of the problems that lead to them not having anyone in the C-suite. Another words, it's often indicative of something else that's wrong in the company.

MARK MACHIN: Yes, well all of that. We're addressing, we're quite targeted at the moment on board effectiveness. So the sustainable investment team has these five areas of focus. Things like water conservation, climate change, executive compensation, labor or slavery, and then board effectiveness. And in board effectiveness, the most important area that we're driving is for this gender diversity on board. We started voting two years ago in Canada against the chairs of nominating committees that didn't have women on the boards.

There's been an impact. That initiative plus the 30% Club, that's had a very powerful impact on

Canada so far. The number of companies that had no women on the board when we started voting was (audio went off for a second) 45, in the last round reduced to 22. The number of companies in the TSX250 Index, which is the focus of the 30% Club, that had no women, is reduced from 30, down to just 1, right now. (Applause)

ALI VELSHI: A lot of pressure on that 1. That should be changing by the end of the day, one assumes.

MARK MACHIN: And the percentage of women on boards, it's not quite 30% yet, but it's gone up dramatically from 12% to 25%.

ALI VELSHI: What's the biggest influence in that in general. I know that you are a big part of that. But what...is it cultural, is it political, what causes these companies that haven't done that up till now to decide this is important?

MARK MACHIN: I think it's a number of factors. I think 30%, this 30% initiative has had a very powerful impact. It's got to 30% in the UK, to focus people's minds in Canada. I think quotas are inappropriate. But I think targets work. And I think if you have a target, but you still say, we want the absolute best talent, the absolute best person for whatever position, then it works. So I think it's really focused the mind. And I think the pushback from investors like us, we're not the only one to say, these excuses don't make any sense. Come on, get real.

ALI VELSHI: So, when the excuse is we can't find the women, certainly we know on the other side of that, there are remarkably qualified women who are not in that conversation with people, in the same way that men are. Do you have guidance for a company that says, we can't find the right women to be on our board?

MARK MACHIN: Yeah. What we find is that in those situations what's happening in the search for directors is they're asking their current all-male board; do you have any ideas for the next board member. So it's an informal process. It's consulting the guys on the board and they all come up with guys that they know for the next board director.

So what we try and do is say, look, that's not the best way of creating an effective board. You should have skills matrix, look at what types of skills you need on the board. Look at what your current board members have, and what's absent. Do it systematically. Then look at the skills that you're missing, that you're going to lose from that board turnover and go after the best people for those skills. And make sure that you're doing it in a professional way and going after a broad enough range of candidates. If people do that, then lo and behold they find good women over time. It works.

ALI VELSHI: In a few minutes I'm going to open it up to questions. We probably given the time, have time for two questions. So think that through, in about five minutes I'll be asking you about that. When determining who to target or who to have conversations with, and I assume

everybody is not a target. There are some companies you can go to and say, is there some reason you haven't fixed this, or can you fix it, before we decide we're voting against you or a nominating person. What are the metrics that you use to determine who you're going after and how you prioritize it?

MARK MACHIN: Well we take our proxy voting rights very seriously. If we have a company on the portfolio, we're going to engage with them. So, it's not really a question of whether they're big or small, if we have them in the portfolio then that's who we go after. It should be one we have in the portfolio. I should say that we started this two years ago in Canada, we decided this year to roll it out globally. So we're going to do that.

ALI VELSHI: All of your investments?

MARK MARCHIN: All of our companies that we have in the portfolio, globally. Which, there's some debate, but again, when I went back to, just the math and looked at, I asked the team to go over their statistical analysis to back it up, because again, we have to look at it through that lens of maximizing returns without undue risk. I said, of those 100, the matter study of 100 different pieces of analytical research, plus all of the 3,000, the big data analytics of what we've done internally. It's pretty compelling. It was obvious after looking at that, that we should roll it out globally.

I do want to make one other point though. There's a lot of good news in all of this. I have to say, even in Canada and North America, I mean, it's still, it's got such a long way to go. So there's still, if you look at the broader number of list of companies in Canada, I think it's over 30% still have no women on the board. So, yes, in the index, that 250 index made a big impact, so, that's the focus. There's a much broader tail of companies with no women on the board, and when you go right to the top again, it's 5% of CEOs.

ALI VELSHI: When you talk about your mandate being without undue risk, a conversation I was having earlier with some women here is that when dealing with investment, particularly this has to do with women who are running companies or women who are trying to raise the money, the measure of undue risk is different when people consider women than they do men. Another words, men can get funding for what one would consider high-risk more easily than women can. Does the, without undue risk play into a company's pushback to you? To say, to do what you do, would be unduly risky for us.

MARK MACHIN: So, I'd have to ask Adriana again, so, we haven't heard that as an excuse yet. I'm sure it will come up at some point, though. I don't think...frankly, as we all know, and there's been lots of discussion today, generally boards that are more diverse are less prone to making more rash decisions and over risky decisions. So I think there's lots of psychological research on that front. Groups that are more diverse make better decisions and are less prone to extreme.

ALI VELSHI: I would assume and maybe just give us a sense of what type of position you take in most companies that allows you to have this sort of influence. Another words when you call and you say this that you're voting against the chair of the nominating committee, do you get a response always?

MARK MACHIN: I mean in Canada, we're obviously a big name, and with \$370 billion to invest around the world. Generally, people respond to us. We're in the early days of rolling this out globally and I think in quite a few countries we'll probably have decent impact. But others, it's going to be harder. Who knows? It's not going to be instant, people are going to be okay, done. I say it's something that we believe and take seriously and we should keep pushing for it.

ALI VELSHI: Talk to me about, obviously when we're discussing with companies or investors who have influence over these things, it's always fair to ask, how do you deal with this in your own organization?

MARK MACHIN: Yeah, so again, for the same reasons, that for having the best brains, the best talent for each opportunity, you know, we've been pushing on this. So, our board is taking it very seriously. Today, at the moment, 60% of the board are women, including the chair. Of the senior management...so overall in the organization, 45% of our organization are women today. In fact, just over 50% of our new intake are women, so about 52%. Of the senior management team,

about 36% are women. Where it gets...you know, 35% of investment professionals are women. So the senior investment professionals is where we continue to need a focus and do work and not just hide on the bigger numbers. We're making progress.

ALI VELSHI: I want to yield my time to give a little more time for questions. So let's start with you over there, and then we'll go back to you, keep your hand up in the back there, just so we know where you are, okay, very good. Let's start with that and see where we go.

QUESTION: Laura Rittenhouse. Can you tell me, what's your experience, when there's a woman on the board, how does that change the quality of the conversations? My experience is, boards I've been in on, I've found that I'm more likely to ask the tough questions than...your laughing, I'm just curious have you had any experience with that, and what are your thoughts?

MARK MACHIN: I'm laughing, you see I was trying not to...I think that's a personality type of thing rather than a gender thing. To be honest. Asking tough questions, which is what board members should be doing is important. But I think having said that, I understand your point, and that, if you are less part of the club, you've got less propensity to be lured into just being nice because you're part of the club. You need the board to have that healthy distance and to be able to be critical. So having that difference from the senior management team can help. I agree with that.

QUESTION: Thank you Ali. Elena \_\_\_ with \_\_\_ and I work on the technology and cyber-security side. Mark, obviously the reasons that you mentioned and the numbers that you listed earlier, they are very relevant to the security industry as well. And you know we are seeing, currently, a lot of the numbers show that if you're targeting younger population or if you're targeting a more diverse population, they're also looking for meaning in their work. So, in your experience, how have you, I guess, across the organizations you worked for, translated that sense of the meaning in the work that people are looking for.

MARK MACHIN: I think for our own organization, we're lucky that in many ways we have a very, very clear purpose. It is to...we're investing on behalf of 20 million people in Canada for their retirement security. I think a lot of people, it gives them a little spring in their step. If you're in Canada and you're thinking about your parents, your grandparents, your relatives, you are doing something for all of those people and so, that purpose and meaning is there in what we do. And then we also strive to be the best at what we do as well, to be the absolute best of our type in the world, and again that drives a lot of our people. So, there is an underlying purpose and then we have an ambition as well to be the absolute best at it.

ALI VELSHI: Thank you. Mark, thank you very much for a great conversation. Mark Machin of the Canada Pension Plan Investment Board.

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Visualizing the Data: Why Women-Owned Startups are a Better Bet?

Frances Brooks Taplett

Global People Senior Director, Boston Consulting Group

ALI VELSHI: I would like to call upon our next speaker, who is going to discuss with us why women-owned startups are a better bet. Frances Brooks Taplett is the Global People Senior Director at the Boston Consulting Group, Frances. (Applause)

Frances Brooks Taplett

Global People Senior Director, Boston Consulting Group

I'm actually going to tell you the answer to that question. Hopefully, first I'm going to show some slides.

VIDEO PLAYING (NOT TRANSCRIBED)

So, we're going to share the case for change, shatter some myths, hopefully with some data. And then talk a little bit about what everybody in this room can do to change how we think about women and women in investing.

First, why does diversity inclusion matter? When you look at the data, when you have more than

three female directors, return on equity goes up. With net profit margin, again, as you add diversity to the leadership team, it increases 6%. The same around financial returns when you have a racially diverse group, and EBIT for companies with above average diversity of the leadership team. So, the numbers are there, and they are clear.

We talked about innovation. And when you look at it, when you have more women and more diversity involved across all kinds of diversity, the actual revenue from innovation goes up. And it's 19 points higher when you have a diverse leadership team. So, the numbers are clear. And yet, the progress isn't being made. You saw in that video; the costs are clear. It's around talent with the Google walkout. It's legal settlements. 21<sup>st</sup> Century Fox spent over \$150 million settling legal fees associated with #metoo and other pieces of the sort of coming up of the bad things that had been happening in media.

When we look at media attention and revenue impacts, you have calls for boycotts, you have companies with workforces that are walking out on them. And yet, we're not making progress. So, why? We asked 17,000 people around the world, does your company have a diversity program, and 96 to 98% said yes, absolutely they do. And then we asked those same people, have you benefitted from it? And 70 points lower said yes. So companies are investing huge amounts of money to try to drive change and they're not successful in doing so.

When you look at the landscape of venture capital, we see those same trends around, either

women don't have a seat at the table, or they're not included. You can see here that only 4.4% of VC dollars went to startups where women were involved. They were either founders or co-founders. By the way that's four times less than was invested in smokeless tobacco last year. And only 8% of VC firm partners are women.

So, we tried to understand why. And what the impact of this is. We partnered with Mass Challenge which is an incubator in Massachusetts, that had five years of historical data on returns to try to understand more of the details of what was going on. And what we learned is that startups with a male founder get more than two times as much investment as those with a female founder or a female co-founder. But, and I'm about to answer that question, the revenues generated by startups with female founders or co-founders are actually higher. In fact, it was 78%. So the bottom answer on that first question in the beginning.

So, we're investing less, but their returning more. So, we thought maybe this is an anomaly and we would try to figure out why. And we ran a bunch of regression analyses and we tested for the quality of the pitch, and the scores that they got. We looked at education background, we looked at the types of startups they were, and the only thing that was statistically significant, that correlated across why they got less, was gender. Let's stay on this slide for a while so everybody can really absorb it.

Then we did some interviews to try to understand both the why of this and then we'll talk in a

minute about what you can actually do to change it. Because I think that's probably the most important. There were three big themes that we heard around the why. When women go in and present an idea to venture capital, they get far more pushback. In fact, if a woman and a man go in and pitch together, they ask the man the technical questions, not the woman, no matter what her job title is, and if the woman provides an answer and the man does, they usually question the woman and not the man.

Second, there's an uneven playing field in terms of how the pitches take place. So men generally will overestimate the upside of the potential investment that they're driving. So, they'll say, this can return 400 X and women say, well, the conservative side is, it's maybe 200 X. But if you look at how venture capital is built, where you need a few runaway hits, you're much more incentivized to go after that 400 X than the 200 X. So, this really hurts women, even if their ideas are equally likely to generate the 200 or the 400, they don't tell that story.

And then the third piece is around the kinds of sectors that women often have startups in. If you look at where a lot of investment has come, it has not been in sectors that are traditionally known to women, like healthcare, childcare, beauty, things like that. And I'm obviously making an assumption here, but if you look at venture capitalists, who we saw it's 8% women partners, and they're looking at a set of ideas, and women have a set of ideas that are in one group, that group gets under-funded. And in fact, if you look at the kinds of startups we've seen in the last decade, they're not in the field where many females are trying to start groups and start businesses.

So, that's the sad side of the story. Now we'll have some good news. What can we actually do to close the investment gap? And there's things that people in this room can do that women founders can do and that venture capitalists can do.

So, the first one, is for the VCs and obviously, these are going to seem pretty obvious, but it's around getting rid of bias and not making assumptions. So, don't assume that the woman doesn't know the technological side of it, she may very well have gone to MIT and be a double engineering major.

The second one is around bringing women into the investment making teams and so having a diverse team making the decisions. We talked earlier that diverse teams generate 19 points more innovation revenue. So, if we have diverse teams in venture capital, I believe they'll generate much more diverse points of view and that brings more revenue.

The third one is just understanding some of this data and the numbers behind why this really matters.

For startups and accelerators, how do you think about driving change? The first is on insuring a balanced slate when you're in the pitch meeting, and you've got both men and women that are listening and asking questions.

The second are bringing in women and providing coaching at times, so that they don't argue for the 200 point upside, they can present that 400 point upside with credibility and really believe it and own it.

The third one is around helping to build networks. That's why something like this is really exciting because this is in effect building networks, but thinking about how do we do that in a programmatic way and more consistently.

Then fourth, sharing the case for change and hopefully we're arming you guys today with some of the data and some of the sound bites and like Indra said, we can bring eye drops for when we get the eye roll to take forward.

Then the last one, for women founders, not to put all of the onus on them, but it's around really pitching more of the upside and standing up and saying what the business is, what it can do, and what the tiptop best scenario is and not just the most likely.

The second one is seeking out VCs and I think we'll talk in the next panel with a few of those, that look for diversity as part of how they think about who to invest in. And then the last one is finding the networks that we talked about building in the last group.

So, as Shirley just said, if they don't give you a chair, bring your own. So with that, I figured I'd

open it and see if people had a few questions. I speak really fast, so I'm happy to go back and talk to any of the data that we shared.

QUESTION: Hi, I'm Julie Talbot from Mastercard. In terms of the point you made about women owned businesses returning more, do you expect that to go away in the future if there is more parity?

FRANCES BROOKS TAPLETT: So the question was, I made a point that women-owned startups today are a better investment, they return more and do I think that will go away if there's more parity.

I think the data would suggest that, that's happening because we're only getting the very, very top because those are the only ones that can cross every bias threshold. I think in theory, potentially yes. Though, we do know that when there is a diverse team making decisions, they make better decisions. I think it will always be true that a leadership team that has men and women, people from different countries, from different socioeconomic backgrounds, race and ethnicity, LGBTQ, those will always, I believe, return better outcomes, than purely homogenous teams.

QUESTION: Laura \_\_\_\_ and my question is, I didn't understand whether this is from only US or is it worldwide. Also, generally, when you have a policy behind, like the government behind

certain things like we heard today, actually things get moved faster. How many legislations are in the US that are promoting women's maternity leave, how many gap equality, what is the legislation out there in the US, have you made that analysis too, to see where the future is going. Because I think that policy makes a huge difference.

FRANCES BROOKS TAPLETT: I totally agree with you. I will tell you I am not a policy buff, so take what I'm about to say with a grain of salt. First of all in terms of your data question, the first set of statistics around innovation and the 19 points, that's a global number. You saw in the video she talks about 36, which was a German number. And so, the amount of innovation revenue driven by diverse teams is global. The specifics around women-owned startups and investing in women-owned startups, those are US numbers, based on US data. In terms of your policy questions, because I looked at this a tiny bit, we are I think one of the only countries in the world that doesn't have mandated maternity leave. As the mother of two young children, I was lucky to work somewhere that provided it. But there's very little support for women in terms of childcare and families, and I do think that makes it challenging, and it puts pressures in ways that we don't see in countries that do support that.

QUESTION: Jo-Ann Rolle. Dean of the School of Business at Medgar-Evers College. How do you get access to several incubators, accelerators, how do you get the women from where the VCs are not funding, to where the VCs are funding? How do you drive them over?

FRANCES BROOKS TAPLETT: Like the coaching part. So part of that is on helping them tell their story, that's the pitch tact, it's the how do you present in a room, how do you feel comfortable walking into a ballroom of people staring at you. I mean, it's not usually a ballroom, but a panel of people staring at you, and be able to talk to your idea. There are incubators, women's incubators that focus on exactly that, and women traditionally are less edgy in how they present. So, helping them have some of those typically male archetypes that we look for. I think it's also around confidence and sort of reps at bat and trying and practicing. But I don't know that there's a single perfect way to do it. And incubators make a huge difference. Because they get those networks together.

QUESTION: This is Elizabeth De Mars, how are you.

FRANCES BROOKS TAPLETT: Very well, nice to see you, long time no see. We're neighbors.

QUESTION: I wanted to tell you that we had a Midas Touch VC in the room in the form of Debbie Farrington from StarVest. If you're looking at the composition of very successful leaders in venture capital who have broken through a lot of glass, there are a number of people in the room who meet that, but especially Debbie. I did want to ask you, my information might be old, but I feel like, most of the money is still in California, then you have Boston, New York is really excited about maybe having broken through Boston in terms of venture capital, which, and I'm not, familiar with Austin or Chicago, but they have to be way behind. Which of those three

geographies is most, whether it's naturally or not, receptive to women? Do you know that?

FRANCES BROOKS TAPLETT: I don't know specifically about the geography. The one thing I will say is we did some looking and Silicon Valley reinvests more, whereas people in Boston tend to make their money and then stop working and not reinvest it. Which is really actually a problem, if you're trying to build a tech company. I live in Boston. It would be interesting to see if there's a correlation there. I think, I would hypothesize that smaller cities are probably slightly more welcoming, because they're looking more broadly, but it's a hypothesis.

QUESTIONER: I only ask that because the New York ecosystem is more detailed (INAUDIBLE). So I didn't know if it was actually \_\_\_\_.

FRANCES BROOKS TAPLETT: It's a good question.

QUESTION: Hi, I'm with Golden Seeds. We're the nation's largest angel group and we've invested in 150 women led companies and New York and Boston are leading on backing women. 80% of our portfolio is tech. We are showing the world that women are really doing everything. But I also want to say another thing you can all do is become an angel investor. We've activated the angel movement, angels are backing women and many women actually do not understand that they actually could be an accredited investor, they just need the understanding of what it takes to be an angel is not well-understood enough. We are backing companies into series A and

B because they can't raise those \_\_\_ rounds with Cs, but angels will follow and keep these companies funded. So all of you should think about when the time is right and learn about it. That you can become an angel investor, you can aspire to it, and you can encourage people, because you can make a huge difference just by becoming an angel. And make money.

FRANCES BROOKS TAPLET: Thank you. (Applause)