MEETING OF THE
ASSET MANAGEMENT ADVISORY COMMITTEE
Held Remotely via WebEx
Tuesday, December 1, 2020

AUDIO TRANSCRIPTION
### PARTICIPANTS:

#### Securities and Exchange Commission:
- Jay Clayton, Chairman
- Hester Peirce, Commissioner
- Elad Roisman, Commissioner
- Dalia Blass, Director, Division of Investment Management

#### AMAC Members:
- Ed Bernard, AMAC Committee Chairman
- John Bajkowski
- Michelle McCarthy Beck
- Jane Carten
- Scot Draeger
- Michael Durbin
- Gilbert Garcia
- Paul Greff
- Neesha Hathi
- Renee LaRoche-Morris

#### AMAC Members (continued):
- Ryan Ludt
- Susan McGee
- Jeffrey Ptak
- Erik Sirri
- Aye Soe
- Rama Subramaniam
- John Suydam
- Russ Wermers
- Alex Glass (non-voting)
- Joe Savage (non-voting)

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#### Adjournment
MR. BERNARD: Good morning and welcome to the sixth meeting of the Asset Management Advisory Committee in 2020. I'd like to call the meeting to order.

I'll note that we have a quorum and since this a virtual WebEx meeting we have done a soundcheck to ensure all can hear. If anyone on the committee or Commission is having a problem please send a private chat to the meeting host, which is the tech group, and they will support you.

As we open the meeting I would like to thank Chairman Clayton and Commissioners Peirce and Roisman for their attendance.

Before I turn to Chairman Clayton for his remarks I wanted to take this opportunity to express thanks on behalf of the entire AMAC for his support in creating this committee and in our work throughout the year. We're grateful for the openness that he, the commissioners and Division Director, Dalia Blass, have shown by engaging with us and seeking our input.

Now Chairman Clayton, I'll turn it over to you.

CHAIRMAN CLAYTON: Thank you, Ed, and welcome to everyone to today's meeting of the Asset Management Advisory Committee or AMAC as we call it. This is the final meeting of the Committee for the year and I want to thank all of the members of the Committee for a remarkably productive first year, as well as the panelists, including those presenting today and those who presented at prior meetings.

I also need to thank the staff, including as you mentioned, Ed, Dalia Blass and her team in the Division of Investment Management, for working closely with the AMAC so that it can provide the Commission with its perspectives and advice, which you’ve already done so well.

And Ed, thank you to you for your time and attention to guide the AMAC to a successful inaugural year. You’ve set us on a very good path and set a high standard. So thank you, Ed.

This is my last scheduled AMAC meeting as Chairman and I greatly enjoyed working with all of you and seeing this committee get off to a fine start.

The committee was formed to provide the Commission with diverse perspectives on asset management, and you have done that consistently throughout the year, and a year with many challenges. The topics you’re addressing today and have addressed in the past show that you’re attuned to our needs and the needs of investors.

You were able to turn quickly to consider this year's unexpected issues related to COVID-19 and the resulting market activity. Your work included several timely panel discussions as well as a special meeting last month to which you provided recommendations related to operational issues affecting firms ability to continue their normal business operations while meeting the substance of their regulatory obligations and the expectations of investors.

But you did a great job on this, really took to heart the tangible evidence you had from dealing with the pandemic, and it helped us craft our rules to move forward in a better way. And I know you're going to continue to provide helpful feedback and input to the Commission as we seek to modernize our regulatory approach. I think we've all learned that the more quickly we pay attention to things that have become out of date the easier they are to fix.

Today's AMAC agenda continues to focus on key topics within the asset management industry, including updates from your subcommittees focusing on private investments, ESG investments, or as I like to say E, S and G separately, and diversity and inclusion within the asset management industry and the financial services sector more generally.

I want you all to know that this is a matter of great importance to the staff of the Commission and the Commission and I look forward to all of these panel presentations and expect to join you for the diversity and inclusion panel.

So once again thank you for your time and your efforts.

Back to you, Ed.

MR. BERNARD: Thank you, Chairman Clayton.

COMMISSIONER PEIRCE: Yes, thank you, and good morning Ed and good morning to the committee members.

Thank you for your continued work.

As we approach the end of the year it's almost not worth mentioning just how much has changed for asset managers since January 1, 2020. Remote work sites, technological challenges, twisting market volatility and analog compliance obligations in a digital economy were just some of the hurdles asset managers encountered and successfully cleared this year.

The year is nearing an end and we hope its unique challenges also will soon be history. As attention shifts to 2021 the asset management industry needs to prepare for the next set of challenges and
opportunities, and I hope this committee will help us to think about how we can keep our regulatory structure adaptable too. Whether it’s crypto assets, cybersecurity, or new uses for artificial intelligence I want our rules to provide a framework within which the industry’s ingenuity can flourish for the benefit of investors.

One thing that has not changed on the eve of 2021 is the barnacle like presence of ESG on the short list of topics confronting asset managers. I continue to believe that for all its hype ESG investing does not require us to turn our rules inside out to accommodate it anymore than any other broad genre of investing, like value investing requires us to do.

Tell your investors how you plan to manage their money and let them decide whether they want you to manage it. You in turn should not ask companies to spend their investors precious time and resources incorporating all manner of ESG and minutia into their public filings, but rather to treat ESG topics with the same materiality filter they apply to everything else.

Accordingly, while I've only been able to give the ESG Subcommittee recommendations a cursory review I have concerns. The concept surrounding ESG and sustainability are simply too amorphous and open to manipulation and multiple interpretation to lead to a meaningful disclosure regime. To compare ESG materiality disclosures to those governed and informed by GAAP principles is in my view mistaken.

There are passionate voices in support of filling corporate securities disclosures with ESG measures and some of those voices belong to investors, yet we always must bear in mind that securities disclosures cannot effectively serve their vital role in helping the capital markets solve problems, including ESG problems, if they are used as a forum for social and political discussion.

Nevertheless, I'm always interested in what frontline industry leaders have to say on the topic, and so I'm eager to hear your thoughts on what the ESG Subcommittee reports.

I also look forward to hearing today's update from the Private Investment Subcommittee. Expanding the opportunities available to American investors to access the private markets has been an area of particular importance to Chairman Clayton and I want to take a moment to thank him for his leadership. He has shepherded through to completion some much needed reforms during his time as Chairman.

Whether – while there is still much to be done Chairman Clayton has put the Commission in a good posture to continue exploring how best to open up our private markets to retail investors. The subcommittee's findings will no doubt provide important insights to aid the Commission in its ongoing efforts.

As you discuss today's third topic, diversity and inclusion, I know you will underscore the value of treating each person as a beautiful, unique individual whose worth and irreplaceable capacity to contribute to society cannot be encapsulated in sanitized statistics.

In the asset management industry as in the rest of our country’s great institutions we must capitalize on one of America’s greatest strengths, its people, wonderfully diverse by every measure, yet working in concert with one another to build a shared, prosperous, free future for the next generation of Americans.

I hope that you find today's discussions enjoyable and profitable. Thank you again for your work.

MR. BERNARD: Thank you very much, Commissioner Peirce.

Commissioner Roisman.

Opening Remarks - Commissioner Roisman.

COMMISSIONER ROISMAN: Good morning. I want to thank this committee for continuing your important work. We are entering the holiday season, but your efforts are clearly not letting up.

Thanks to your dedication as well as the tireless leadership of Ed and the supporting efforts of the Commission staff you remain focused on the complex topics you committed to explore almost a year ago.

I look forward to hearing from all the subcommittees slated to speak on today agenda, but I want to focus my remarks on ESG in particular. The ESG Subcommittee will discuss the headway they are making toward developing a final recommendation.

To the members of the subcommittee I want to say it is clear you have devoted a lot of time to hearing from various organizations with interests in ESG related investing. You’ve also studied issues related to environmental, social and governance focused investing on your own.

I have reviewed the draft recommendation you provided and would like to offer a few initial thoughts. First, I agree with several aspects of your potential recommendation, namely that a prescriptive approach to mandating that public issuers provide E, S or G disclosure is not likely to strike the best balance between obtaining decision useful information and
minimizing burden on those issuers.

Two, that it is important to seek information
that is tailored to the particular issuer rather than
impose a one size fits all disclosure requirement.
And three, that the SEC's existing principle
based rule set, which is grounded in materiality.
provides a good framework upon which to building.
That said I want to let you some of the
interconnected questions I will be thinking about as you
discuss your potential recommendation in more depth.
First, how do you believe this recommendation
would serve and benefit investors. While I understand
many in the asset management industry would like the
public issuers to provide more ESG information, many of
them have commercial interest in the SEC mandating such
disclosure. But the SEC must understand how investors
are to benefit from any action we take.

Second, investors have now invested around $2
trillion into funds labeled ESG, green and the like, but
it is not clear to me that we understand those
investors' objectives, which as you noted in your draft
recommendation may fall outside risk return alone.
SEC required disclosure is predicated on
materiality to investors. Without knowing more about

these investors' goals, particularly those unrelated to
risk return objectives, how can we assess what
information may be material to them when thinking about
imposing new disclosure requirements.
Third, why do you feel comfortable talking
about ESG as one concept when E, S and G are fairly
distinct? For example, what more G disclosure is
needed?
Fourth, I've heard from public issuers who are
considering how to fulfill investors' requests for
information about environmental or social information,
that they worry about the liability that comes with
providing such information in publicly filed SEC
documents. Did you consider ways to mitigate this cost,
such as allowing the information to be furnished rather
than filed with the SEC?
Fifth, to the extent that the goal of this
recommendation with respect to public issuers is
comparability of disclosure, not new disclosure, why are
disclosures of material information different if they
happen to fall under the ESG umbrella when in other
contexts we do not demand perfect comparability across
all categories of material information.
Sixth, there have been significant efforts in
private ordering around ESG topics that have been
valuable in furthering the same objectives sought in
this draft recommendation. Have you considered to the
extent to which rule based mandates might stifle the
development of such currently evolving measures?
Finally, to the extent that you are
considering recommending that the SEC incorporate
certain third parties' disclosure guidelines into our
rule set have you thought about how the SEC should
oversee those third parties?
Also, should we extend our oversight further,
for example, to ESG index providers or ESG rating
agencies since so many ESG funds and investment
products are derivatives of their work?
I'll stop her for now as these are the
questions that I hope you think about today and in your
continued deliberation. I'm grateful to the ESG
Subcommittee for bringing this potential recommendation
in draft form to the full committee for discussion. I'm
sure that everyone on the committee will bring valuable
perspectives to these questions given the array of
expertise represented from the various parts of the
asset management industry.
Before any final recommendation is presented,
however, I hope you will engage with a variety of public
issuers. After all the bulk of this recommendation in

its current form focuses on obligations only they will
bear.
Again I appreciate the work and thought that
you are devoting to this undertaking. As always my door
is open to continuing this discussion and I look forward
to supporting your efforts. Thank you very much.

MR. BERNARD: Thank you very much,
Commissioners Peirce and Roisman. We're grateful for
your attendance and for your remarks.
Now I'll turn it to the Director of Investment
Management, Dalia Blass, who I think would like to share
a few thoughts as well.

MS. BLASS: Good morning, thank you, Ed, and
welcome all to the last meeting of the Asset Management
Advisory Committee for the year.
Before I start let me remind you that I'm
speaking today only for myself and not for the
Commission, the Commissioners or my colleagues on the
staff.
As we close the AMAC first year I would like
to acknowledge the important workstreams and issues in
which the committee has engaged and provided the
Commission and its staff with valuable input.
The AMAC explored the evolution of the
industry, framing future discussions with a data based
foundation. After exploring the value proposition of
the asset management industry, the evolution of the
public and the private securities markets, the
globalization of the asset management industry, the
committee identified four initial workstreams, retail
client backed private investments, ESG, diversity and
inclusion, and the impact of data and technology.
The committee hosted panels and subcommittees
analyzing each of the priorities. Despite this very
ambitious agenda the committee took the time to consider
and offer recommendations on issues raised during the
COVID-19 pandemic for the asset management industry.

Today the ESG Subcommittee plans to offer
potential recommendations for discussion. I would like
to start by thanking the subcommittee for its rigorous
and thoughtful work in this area. ESG considerations
are not new given that ESG funds have been in the
markets for decades. However, there has been tremendous
evolution in this space, including with respect to
investor interest.

So as the committee looks at this topic I believe it's important to focus on how each
recommendation would serve the mainstream investors. So
as we discuss the ESG Subcommittee's potential
disclosure recommendations I offer a few initial

thoughts, and I know I probably will have more questions
as the discussion rolls out.

Despite noting otherwise the issuer disclosure
recommendation appears to change the Commission's
historic approach to disclosure, which has been rooted
in materiality as determined by the issuer. Why would
this be appropriate with regard to ESG material risk and
not for other potential areas of risk?

Why is it appropriate to look to third party
standard setters who are not regulated by the Commission
or would the view be that they should be regulated? If
so, how, and by whom?

How would the disclosure liability provisions
that are central to market and investor protections
under the federal securities laws come into play when
looking to third party standard setters and mandated
risk disclosures?

And finally for now, the recommendation for
the corporate issuer disclosure is quite different from the
one for fund issuer disclosures, with the first looking
to an authoritative and binding approach akin to GAAP,
and the second relying on current disclosure rules and
best practices.

It would be helpful to understand how this
bifurcation is appropriate given the significant
differences in the fund E.S. and G strategy. So we look
forward to discussion on this topic today.

In addition to the presentation by the ESG
Subcommittee the Private Investment Subcommittee will
provide an update on its work and the Diversity and
Inclusion Subcommittee will host a panel discussion.

That panel is the latest in what has been a very
informative series of discussions on challenges to
improve diversity and inclusion in the asset management
industry.

I look forward to hearing from John Rogers,
Martin Cabrera, and Ruby Dang who are leaders at
prominent financial, minority financial firms.

As always I would like to thank the Chairman
and Commissioners for their participation today, as well
as the staff from IM and the Commission's Office of
Information Technology for enabling us to meet today.

In particular I've always mentioned the IM staff that
has been -- there's so many on the team that provide the
support for AMAC. I really would like today as we end
the first year for the AMAC to highlight what
(inaudible) particular a huge thank you to Christian
Broadbent who has been our lead on the IM staff in
supporting the committee and has been truly remarkable
this entire year, the amount of time and work that he
puts into getting the committee ready for every
discussion. Subcommittee discussions have been
remarkable.

And I will not that I got my final packet for
today almost close to midnight, just showing you how
much time he puts in and devotes to every single piece.
So a huge thank you to Christian
Ed, I also would like to thank you for your
tremendous leadership this year. I would like to thank
all the committee members, the subcommittee chairs, and
our panelists today for all the time you have dedicated
to moving us forward on these very, very important
topics.

With that, Ed, I turn it back to you and I
look forward to discussions from all the subcommittees
this morning.

MR. BERNARD: All right, thank you very much.
Turning to today's agenda I'll let each subcommittee
leader introduce their session.

For now just a brief overview of the day.
I've got some notes here. Frankly, I think we've
covered a fair bit of this.

This morning we'll hear first from the Asset
-- the Access to Private Investment Committee. After
what I might characterize as a both lively and substantive panel in our September meeting, the committee will update us on their continued work, talk about some next steps, and share some of their emerging thinking that will shape recommendations to be brought back to the committee in the future. After a brief break the ESG Subcommittee will also update us on their work, and as you've heard they will be more specifically discussing potential recommendations that would likely come back for the first meeting of 2021, after some additional work. As each of these teams are getting pretty far along in their work, I hope the committee and Commissioners will actively engage for questions and comments. During our lunchbreak, the AMAC will hold a non-public session to discuss some administrative matters and you'll get some instructions on that at noon in terms of technology, how to switch over. We'll come back together at 1:00 with the public again for a panel led by our Diversity and Inclusion Subcommittee. Following their panel in July that presented the views of trade associations who represent the interests in diverse and women owned firms, and then in

UPDATE FROM THE PRIVATE INVESTMENTS SUBCOMMITTEE
MR. SUBRAMANIAM: Great, thank you, Ed, and good morning to the AMAC. I want to thank the Chairman and Commissioners Roisman and Peirce for this opportunity to speak as well as Director Blass. As you flagged, Ed, the focus of today is primarily an update. I would state at the outset that we're not yet in a position to make recommendations, and as I'll talk I'll also share my screen. Hopefully, people can now see my screen.

Yeah, can people see my screen okay? I've lost volume. Can you? So as Ed suggested we are here today to present an update. The 60 minutes will actually be taken up by three presenters. First of all Erik Sirri will kick us off, and the focus of Erik's presentation is to summarize the findings on whether private equity provides better and/or diversifying returns. We focused on private equity so far and when we talk about next steps I will touch upon what else, what other asset classes we're looking at. But to date we've somewhat naturally fallen into looking at private equity with returns in particular. That was really the subject of the panel that we had last time. Erik's purpose is to try and pull together those findings.

Following that and given that we have focused largely on private equity, John Suydam has kindly offered to provide an overview of different private asset markets and access points for investors. I think this is important as we try and just take a slight step back and think about other asset classes and the way that people currently have access.

And even though we're not at a stage of making recommendations, the final presentation from Joe Savage will lay out some initial thoughts and design principles for wider access. And this is really to stimulate discussion as we follow up on those design principles.

In terms of next steps for the subcommittee, we've decided that we need to investigate returns on some other asset classes, and we'll get a sense of that as John Suydam talks about some of those other asset classes.

We also feel that whilst we focus on the returns from private equity in particular we haven't really focused on the relative measures of risk from private investments compared to other retail products.
that are out there and available to retail investors such as levered ETFs or ETNs as well as options.

And lastly I had indicated we would -- we intend to seek feedback and refine the design principles over the course of early 2021.

So first of all why are we looking at private investments? Again just a quick recap, we've touched on this a number of times, I haven't included a lot of the graphs and data that we've had in previous presentations but, you know, people are welcome to go back and look at that.

Really, you know, if you summarize the supply and demand factors it's a simple as a growing demand for asset management products, and that really results from a growing pool of self-managed assets in taxable and self-directed retirement accounts. We've presented numbers in the past and the growth is quite astounding in both taxable and self-directed retirement accounts, both from demographic factors as well as factors such as the change in self-directed retirement versus defined benefit plans.

The second is the supply side where we're seeing larger public equity markets, but really more concentrated public equity markets. I think one of my favorite graphs that we showed last time was the percentage of the S&P 500 that the top ten companies comprise. That is going to record levels, around one-third of the S&P 500 just from the largest ten out of 500 companies. So the supply side has become more concentrated and hence the need to look at other markets for investments.

The private investment subcommittee is not yet ready to make recommendations. The main reason for that is our original gauging issue that we set ourselves of showing better and/or diversifying returns to public markets, at least in the context of private equity where we focus, is inconclusive.

I think, and I don't want to steal Erik's thunder as he goes through it, I think it's fair to say that no one is saying private equity returns are worse than public markets, but there are several issues including historical returns much better and that gap getting smaller as more money pours into private equity, issues such as dispersion of returns between best performing managers and worst performing managers, as well as relevant benchmarks and comparability to public markets, which Erik will touch on.

There are two other issues that were raised going, really go to the return question, that go more to the measurement and disclosure of returns, and that was the use of IRR, as well as the question of fees and transparency and fees, as well as the size of fees in private markets and private equity that also Erik will touch on.

As a result, you know, we feel that the conclusions at least on private equity is inconclusive.

I think it's fair to say they're not worse. How much better is probably up for debate.

So as a result apart from looking at other asset classes that we flagged at the start we also wanted to think about alternative approaches that we wanted to debate within the subcommittee. For example, is the absence of evidence of worse returns sufficient, i.e. if private equity is not worse why not allow the main street investors to invest, particularly when institutional investors have access why should retail miss out.

And the last thing that I mentioned in the next steps that we also want to talk about or investigate further is the risk for private investments compared to some retail investment products. As I said we focused to date on returns, but we should really think about the relative risk compared to investments that could be viewed as risky that are already available to retail investors.

So that's the introduction. I'd like to turn over to Erik who will cover the first topic, which is trying to and summarize and pull together our findings to date on private equity returns. I will stop sharing my screen now.

MR. BERNARD: I can actually --
CHAIRMAN CLAYTON: Yeah, Ed, it's Jay. Would you mind if I, you know, exert a little last meeting privilege and take up maybe a few of those extra ten minutes with just a question?

MR. BERNARD: Absolutely.
CHAIRMAN CLAYTON: And thank you, thank you for the -- that was a great introduction. I want to -- I'm going to frame this question, and I want to recognize that it's a narrow question, and it's not the only question but it's a consumer of financial products question.

The question I have is, you know, let's say I have 20 years to retirement and I'm interested in a target date fund that's well-managed, is going to give me a diversified, you know, exposure to the marketplace, why do we not have a product where there's a target date fund of 20 years that's, you know, let's say 70 percent equities, you know, 20 to 30 percent fixed income and cash or whatever, and a parallel product that has the
And then the -- and then diversification. Now you mentioned diversification more in the way of having a liquid, public investment and some private investments, kind of like the mutual fund limit that we have now for open ended mutual funds. The other way you also get diversification is obviously a pool of private investments rather than a single or a small number of private investments.

I think those are all design principles we will cover and we think those are all the, you know, safeguards and ways that retail investors should have access, whether it's in a target based fund or in a taxable account.

I'm not sure, Ed, if you want to add to that.

MR. BERNAUD: Yeah, if I could. I would just -- actually I feel like you said it. I'll just give direct experience, for the market based experience from T. Rowe Price. I retired in 2018, so this is a bit dated, but we spent probably four years in pretty extensive engagement with our leading 401(k) plan sponsors about whether to add a sleeve of private investments, something with low correlation.

You know, you sort of pick the objective within the context. They worried about the expense that would add because of the high fees, typically high fees for those products. They worried about complexity. It was essentially the fiduciary risk that I would say is more coming from the bailiwick of the DOL and ERISA rules and the SEC as you put it doing anything wrong to prevent it.

For what it's worth in that same context, T. Rowe Price did introduce a global allocation fund that looks a lot like a retirement date fund except it's not tied to a target, a time target, and it does have a sleeve of alternative assets that are low correlation and so forth. I think it's -- I'm a little out of date, but I think it's gotten traction.

So I think the market issue probably has more to do with ERISA than the perceived safety. I think this committee will probably come out to a point where they're very comfortable with the notion in terms of investor protection, that you can have products such as you described that would be entirely appropriate for investors and the question is whether plan sponsors would adopt it and/or will providers do it absent that adoption with 401(k) plans.

I don't know if others have comments. And hopefully that's responsive to question, Commissioner --

CHAIRMAN CLAYTON: It is, it is. And, look,
I'm just a big believer in, you know, chipping away at problems incrementally. If you already have a product that's designed for a long term, you know, retirement and you add this to it in a way that's transparent so people can see that difference between having a, you know, a sleeve and not having a sleeve, it seems to me to be to a very market oriented, transparency oriented side-by-side, you know, diversification oriented way to go that reflects where capital is formed in our marketplace today.

So we all can (inaudible) that. So anyway, thank you for, thank you for allowing me, indulging me, and I'm happy to hear others.

MR. DRAEGER: Yes, Chairman Clayton, this is Scot Draeger. So I approach this from the perspective of an excellent question that you pose, and having served as an ERISA trustee for multiple corporate plans and having done the same type of consideration that Ed had discussed, some of the realities of looking at the histories of participant use of their plan assets are one piece of the concern for trustees where almost 100 percent liquidity is seemed to be needed by participants.

As you watch the plan unfold you see participants taking loans against their plan assets or even liquidating them to pay for things like cancer treatments, and prescription drugs, and long term care.

And so you get a little nervous as an ERISA trustee to place options in the plan that would restrain liquidity even down to the last dollar for a participant who may need their assets for those types of uses.

So I guess, you know, that's certainly on the retail taxable account perspective with plan participants with smaller dollars in their accounts, but those realities do exist.

MR. BERNARD: Yeah, and Scot, I think that's really important. What I'm trying to say is I think we can come up with a product design where it's limited to a percentage sleeve of an overall fund and it's well designed, they'll be enough of a secondary market in that sleeve among participants and the like so that you can deal with those liquidity issues.

You know, I think -- I mean, we have of course have to back test it, but I believe -- well, let's put it this way, pension funds deal with those liquidity issues on a daily basis. We know how to do it. I just think we need to, we need to think about it.

But your point should not be ignored at all. Unfortunately, people do not always use their 401(k)s as long term investment vehicles.

MR. BERNARD: Well, thanks very much for your input there and I think that was a great dialogue.

Rama, do you want -- I'm not sure if you were ready to hand off or if you wanted to continue with your opening remarks.

MR. SUBRAMANIAM: No, I'm ready to hand off to Erik. We plan to leave some time for questions, but we can also have questions at the end of each presentation.

So Erik, do you want to talk about the findings on returns?

MR. SIRRI: Sure. Let me share my screen. Hopefully, you can see that. So what I would like to do is I would like to summarize what we've learned about private equity returns. If you recall we had a panel in September that talked exactly about this topic. We had four speakers. And as Rama said I want to emphasize that today we're going to be talking about private equity returns as opposed to other types of private investments.

So I really want to focus on three questions that I think are central to the purpose of our subcommittee. The first is, talks about the measurement of private equity returns. This is a thorny problem and I want to go through and summarize what the measurement issues are for assessing private equity returns.

Second, there's the point that was underlined with what Chairman Clayton said, which is how these returns stack up against public market returns. You know, as Rama said we don't necessarily believe they're worse, but because it's difficult to measure them the evidence is a bit compounded. We'll talk about that for a minute.

And then finally I'd like to talk about the diversification benefits, which also lay at the heart of Chairman Clayton's point. We would like to think that if you held a private equity in a portfolio of other public investments that it would provide some diversification benefits, and we'll see what the evidence says about exactly that.

So let me turn to the first question, which is about the measurement. Now the thing that makes measurement of private equities, equity returns difficult, there's really three considerations. One, is the size of the returns. Private equity returns in the stream for a fund they can be -- there could be very large inflows, there could be very large outflows, sometimes the flows are small, but they play havoc with certain measures like IRR.

Additionally there's the timing of these flows. You know, for a traditional long only
investment, you buy a share of stock and then that stock throws off cash, it throws off dividends and things like that, that's -- that makes a number like traditional return measurements quite easy.

For private equities unfortunately there can be capital calls, so you have positive and negative flows, and these can happen over time. This causes problems for IRR if there are multiple routes and it causes all sorts of difficulties in the measurement.

If you recall from our presentation one of the points that was made is things that occur early on in a fund's history, right about the time -- near the time where it starts, will have a disproportionate weight on the IRRs such that when the fund continues over time, goes five, ten years, the actions of cashflows five or ten years down the road do not carry the same weight in the IRR calculation as the cashflows in the first few years, making IRR -- it's not a terrific measurement for representing an investor experience.

And we were talking about that is a material issue. You want to have a measurement that investors can look at and rely on and rank choices.

So not surprisingly the alternative is a bit graded to the most common, multiple of money. This is just the idea that how much money could you get out given how much money you put in. There are various flavors on it, but it's a pretty simple concept. So a number could be two or three, meaning you put $1 in and in total you got $3 out. Notice it doesn't take into account when the time was the money came out.

The other one is the public market equivalent. This is probably the most common, sophisticated measure. It also has many flavors. It's a version of multiple of monies that takes into account what capital markets were doing. So say, you know, you want to -- it gives you a sense of what is your multiple of money given what the S&P 500 was doing say, or when you want to make a comparison to a private equity fund.

Okay. So let's turn to performance a little bit. So let me explain this chart. This is a chart that we have seen before. The blue bars talk about the performance for a particular vintage year of a fund, the height of the blue bar, and then the dots that you see are either -- they are PMEs, the public market equivalents for the MSDI world in blue, S&P in orange, and MSDI small cap in purple.

So what's the point of this? The point is that you can see that there's a credible case here that private equity is outperforming. The height of the blue bars is greater than the dots in multiple places here.
pools, how these returns are going to get presented to retail investors. Because for a long only mutual fund, you know, what do you see? In the typical performance tables you'll see one, three, five, ten life of fund. Pretty straightforward. This is much more nuanced here. And so I think if these funds were going to be offered as stand-alone funds I think we have to think long and hard about how we want to -- what something like the SEC would want to do and require in return so it's not a, not a straightforward (inaudible). 

All right. So let me turn to another aspect that our speakers dealt with and this is, this is dispersion of returns. So in this chart, in the bars that you see arrayed across the X axis are different kinds, different strategies of funds. So say on the left you can see venture capital and growth equity. To the right next to that dotted line you can see credit. And height of the bar is the dispersion of fund returns within that category. The blue dot is the median IRR for that category. 

So what conclusion might one draw from this? Well, what you can see is that the dispersion is large compared to the return of the fund. Looking toward the right you can see that the return and the dispersion are roughly of the same magnitude. Sorry, on the far left you can see that the return and the dispersion are roughly the same magnitude. 

As you move farther to the right, to things like credit, not surprisingly, you know, dispersions fall, but the reason that's important is if you -- this is a world where there is a reasonable amount of dispersion then that means the selection by investors is going to be important. The choices they have, if they show considerable dispersion, investors are going to need to make choices among various pools of funds, and that selection process is going to be critical for them. It looks to be less important over here for geography. Another, another characterization of dispersion, this time not by strategy but by fund size. 

So over here you can see if you're looking at my cursor $200 million fund, and over here you can see $10 billion fund. The point of this chart is that as fund size is smaller dispersion rises. So $200 million funds here show dispersion about three times that of a $10 billion fund. 

And, you know, that really shouldn't be surprising to us. There are -- they're smaller investors -- they're smaller investments, they may even have fewer investments in those pools, and so, you know, like I said, probably, probably -- you see I think similar, similar points when you look at large mutual funds. 

But, you know, what's the consideration here? Well, you know, size may be a factor, size of the fund may be a factor as we think about allowable investments. Is there a fund size that is perhaps too small. It's not a conclusion we want to make, but the point of this illustration is to show that in terms of fund dispersion size of the pool is a consideration. So let me come to the last point, and this is a point that Chairman Clayton referred to, and that is diversification. So what we have here are two panels of numbers. This top panel here is for global buyout funds. The bottom panel here is for U.S. buyout funds. Across the rows here are different sizes of funds, that is funds investing in different capitalization of target companies. The numbers in the chart are correlation coefficients. 

So, you know, just going back and reviewing what a correlation coefficient is, it tells you how two different things move together. If this number is high, like one, that means that in this case the public markets and the private markets moved together. If the number is zero or smaller it means the public markets and the private markets are moving independently. 

Now you'll notice this is color coded because this is a chart about diversification. So when you see the red here toward the top, these numbers are .5, .6 or perhaps higher, that suggests that the mega cap and large cap global funds are not providing tremendous diversification benefits to their public market equivalents, the S&P 500s, the Russell 2000s. There's not a lot of variation here against what the public the market equivalent is, but the action in this table is moving up and down. The point is small cap PE funds in the global buyout space they have smaller correlation coefficient. They are providing some diversification against the public market equivalent, less so for the larger cap fund. 

And you can see this general pattern is repeated for U.S. buyout fund. You see the reddish blocks towards the top with the higher correlation coefficient. That means the meg and large cap PE funds are not providing as much diversification against these indices as are the smaller cap funds. 

So and all this, remember, has to be taken in context. If you recall what I said a few minutes ago measuring returns is difficult. So this chart is taking a series of returns and then comparing them to a public market, like the Russell or the S&P. So it's a doubly
difficult inference, but it's the best that -- you know, these are the best kind of things that we can do. We've looked at other sources as well and I think, you know, I would summarize and, you know, I'm sounding like a broken record here, the evidence on diversification is mixed. There is evidence of diversification, this is an example. Some authors have found it's quite limited, but there is some evidence that it does exist.

So let me summarize real briefly what is it that -- what is our story here on these three points. The first takeaway I think is that return measurement is really very challenging. The timing and the direction of these cashflows play havoc with traditional return measures like IRR, which is problematic anyway, and so one is going to have to think long and hard if the choices are made -- if retail is given a choice of funds.

Now if in the example Chairman Clayton gave the fund is just a sleeve that's embedded in something like a target based fund, then this problem is perhaps ameliorated. But if the -- if we get to a point where retail investors have access maybe in an intermediate form to standalone funds, then we're going to have to think about how we want to display a return.

The return measurement story itself is mixed. There's some evidence that it is -- that it does a outperform public market. There's also some evidence that it's not that different. But I would say, and echoing what Rama said earlier, we haven't seen a lot of evidence that says it's worse, which isn't surprising given what we know that private investors are doing in these markets.

And second, there is some evidence that private equity firms provide diversification benefits, but as I said it's a -- it's a tough story because you got to, you got to make those return measurements and it becomes even more difficult when you compare them to public markets.

But those are my three points. The sources we used, if you're interested in them, they're on the last, on the last chart there. So that's all I have to say. Rama, I'll push it back to you. I'll keep sharing the slides for John, though.

MR. SUBRAMANIAM: Thanks, Erik. I don't know, Ed, do you want to take some questions, use your Chairman's prerogative to ask a question, or do you want to save them for the end? You're on mute, Ed. Ed, you're on mute.

In looking at it there's not a standard definition of what private investments are or alternatives, which I think is, you know, commonly used. There's a couple of key characteristics within these assets classes. The characteristics include generally a lower correlation to market indices or traditional asset classes not listed on an exchange, a lot of private fund structures.

And one of the things people have mentioned numerous times already in this conversation is reduced liquidity. You know, the common alternatives are, you know, private equity, venture capital, private credit, real assets, which is a fairly broad category, structured products and hedge funds. There are different ways to group those, but this is, you know, kind of common categories that people use.

Erik, if you could flip to the next page. To give a little bit of more detail on each of these, private equity, which we spent the most time so far talking about probably doesn't need much more of a description but, you know, privately negotiated investments in companies which are not public. Basically going in at a certain price, and trying to improve performance, and selling at a higher price.

The next one, which we've also spent some time
on, venture capital, similar type of private equity.

investing but normally the investment is made into
early stage companies, startups, or emerging companies
with high growth trajectories.

What we spent less time on, you know, kind of
-- and if you look we've tried to give some sizing of
markets with private equity about 4.5 trillion, venture
capital about 1.5 trillion. These are estimates, you
know, from numerous data.

Private credit, which is the next one, which
is kind of a growing asset category within the private
market sector. These are directly originated financings
or secondary loan purchases that -- where the loans are
not traded and, frankly, are often unrated. That is
about an $850 billion market at this point, but growing
quickly, and very much related to one we'll get to in a
minute, which is structured products.

There's a real asset category that people will
generally refer to. It breaks down into a couple of
different investments, investments in real estate,
investments into infrastructure projects, and into
natural resources. The same objective. Generating
current income is a little bit more important with it,
some yield, and then improving performance as well.
That's about a $1.8 trillion market at this point from
what we could tell.

The next one, structured products, is
basically using equity to buy investments and then
putting structures on them that use leverage and tranche
out the investment. That is a very significant sized
product, about $7 trillion, and it's very closely
related to private credit.

And then hedge funds, which people I guess
generally know, focus on many things, global equity,
fixed income, you know, many different flavors, about
$3.5 trillion.

You know, so that's kind of a, a little bit of
a roadmap of alternatives currently.

Erik, if you could flip to the next page.

Thanks.

You know, trying to pull what are some of the
differences between traditional investments and these
alts as a general category, you know, kind of layout a
couple of them here. Traditional is much more focused
on relative performance and measurement against other
indices. Alternative is more on absolute performance,
you know, what's the absolute return on the investment.
Traditional is generally not leverage, you know, it can
be, but generally not. Alternative is greater use of
leverage within the structures.

The performance, whether it's dependent upon
market or whether it's dependent upon generation of
alpha within the investments.

Correlation, we've seen some information of
this on private equity but in other classes as well.
Alternatives have less correlation to market indices
generally.

Liquidity, very big issue. You know, the
traditional investments, you know, very liquid, day-to-
today liquidity, and alts generally far less liquidity.
And management fees can often be structured differently
between the two products, whether it's just a direct
management fee or a management fee, an incentive fee
structure.

So when you look at it, you could
just sum it up a little differently depending on the
classes. You know, it could be more expensive on the
alt side, less liquid, more complex. But generally what
we've seen on the returns is it could be better in
certain of the asset classes after factoring in all the
returns, all of the expenses.

Can you flip to the next page for me, Erik.

So what I've tried to do here is lay out kind
of the world as it exists today for retail investors to
try to get access into alternative investments.

So if you look on the far left, products that
exist today that offer daily liquidity, that do have
some exposure to alt, you know, alternative investments,
such as 40 Act liquid alternatives; mutual funds with
alternative allocation; publicly traded REITs, which
would have the exposure to the real estate; publicly
traded BDCs, which have exposure to private credit;
listed closed end funds, once again exposure generally
to private credit; public SPACs, which I'd like to go
into a little bit; and hedge fund reinsurance products,
basically insurance companies that then invest, you
know, their excess capital into hedge fund type
products.

So for instance if we look within still the
liquid category, public SPACs this year for instance,
about 60 percent of the IPO volume within the United
States this year I believe related to SPACs, raising
about $70 billion across I think 200 or so IPOs. And
the reason why I put it in this category is although
it's a daily liquid investment strategy you call sell in
and out of these products whenever you'd like.

You know, your SPAC is a stock that you can
buy and sell. It's effectively a private equity
investment because it is a company that is then going to
go look at buying another company, often a private
company, you know, within a structure that is in some ways similar to a private equity structure. One probable, you know, differentiation is without as much, you know cross-collateralization across a pool. It’s more asset by asset.

If you move then to the middle, kind of semi-liquid products, you have non-traded REITs, non-traded BDCs, and tender interval type funds. Often these funds are not traded but registered, and some of those markets are, you know, are fairly sizeable as well. Non-traded BDCs, you know, we estimate about $1.5 trillion within that category.

And then as you move to the right, which are more the private fund structures, you’ve got private funds with incentive fees, private funds without incentive fees, and co-investments, kind of direct co-investments. These categories on the right generally have far less access, you know, as you go from left to right to any type of retail investor. And more access there basically with the institutional investors.

Erik, if you could flip to the next one. So here I just wanted to show a quick trend and then follow it up a little bit on the next page. On the left-hand side you’ll see within the pie chart from 2001 to 2019 the change in asset allocation from U.S.

state pension funds on an aggregate basis.

So over the last ten years, from 2001 to -- or the last 18 years, from 2001 to 2019, the growth in asset allocation within alternatives has gone from about 5.6 percent to 19.1 percent, with both the equities and fixed income holdings, you know, kind of going down as that change was reflected.

So you’ve got pension funds basically moving more of their assets over this time period into alternatives. That may be correlated, you know, you can never be completely sure, to the graph on the right, which is effectively the graph of Treasury yields from 1980 to 2020, which has been as we all know a steady decline, and we’ve also imposed on it the assumed rates of return for pension funds over that period also coming down but more slowly to reflect that different yield environment.

And then I think the last thing, if we look to the -- actually two more, but if we flip to the next page, Erik.

A bar graph that we’ve gone through that kind of looks at, from what we can tell right now within the market, the alternatives allocations within various channels. So if you look at the far left, the retail channel of about, you know, 40.4, there’s about a 6 percent allocation to alternatives.

Going to the next one in the pensions funds, on average about 18 percent alternatives allocation, and endowments about a 28 percent allocation. With insurance companies about a 12 percent allocation to the alternatives that we were discussing before, and with sovereign wealth fund about a 15 percent allocation.

You know, so looking at this it would suggest that retail investors compared to institutional investors are generally underweighted to alternatives. And, you know, is that because of issues in accessing it or is it, you know, some other, some other issue.

I would also probably point out that that 6 percent within the retail I think is heavily weighted towards the high net worth channel as opposed to true retail.

So looking at the last page this is just to hit on some of the items or issues that may be, you know, causing this potential mismatching on the allocation side and, you know, it starts with liquidity mismatches. You know, is it too hard within liquid funds to be providing enough access to products that generally have a characteristic of illiquidity.

The second one, distribution fees. Some of the products we talked about before that retail access alternatives have very high upfront and ongoing fees, you know, because of the -- it’s either a dual structure or just a heavily -- more complicated, heavily feed structure.

The third one being, you know, the incentive fees. Incentive fees have I think, you know, proposed or caused problems to retail investors getting into and out of alternatives at this point that we need to figure out how to, how to deal with. The institutional and traditional institutional investors actually seem to prefer incentive fees because of the alignment that comes with them, yet for retail it’s much harder to do that.

The other issue is I think we believe, you know, concentration risk within certain products such as SPACs as opposed to having access to products that would be much more across the board with cross-collateralization across a portfolio.

And then the last one being, you know a number of people have pointed this out, very difficult for retirement. It’s much easier for a defined benefit staff to get access to alternatives than for defined contribution participants to participate in alternative assets.
That was it for the remarks on alternatives as a broader class.

MR. SUBRAMANIAM: Thanks, John. And I think the two main takeaways from me from that were, you know, when you sort of go through the other asset classes as we move to our next steps, how far down that list you go, right. I think private credit is clearly an area we need to look at. On the real asset side, you know, real estate where you've got public sort of REIT versus maybe private real estate that you can compare and look at. I think as you get further down, you know, hedge funds and (inaudible) there are so many different types I don't know how you sort of compare that as well as maybe structured credit.

And, you know, the second part is just factually the makeup of portfolios in those different types of investors, different institutional investors, versus retail. As you said it's probably more high net worth that skews that 6 percent. Retail is probably even less than that. And why is that, is it that lack of access as opposed to something else. I think it, you know, sort of falls into that category of, you know, retail investments and what risk there is now already in some retail investments.

Ed, I can't -- I don't know if anyone has got a hand up or have any questions at this point or whether we should move on to --

MR. BERNARD: Keep going and then we'll take questions at the end.

MR. SIRRI: Rama, shall I stop sharing?

MR. SUBRAMANIAM: I think Joe needs -- it's fine. Can you share for Joe as well?

MR. SIRRI: Yeah.

MR. SAVAGE: Erik, if you don't mind if you could continue to share. Sorry about that.

MR. SUBRAMANIAM: So while the slides are coming on just to remind everybody, you know, as you can see from the presentations and my introductory remarks, we do want to do more work on, you know, more asset classes as well as look at some of the risks on some of the retail products that are out there. I just want to reiterate that, you know, even though we are talking about design principles here we're not at that point of making recommendations. But, you know, we have started to turn our mind towards, you know, how any access might be provided, right, and that could fall into no access unless you have this or, yeah, you know, recommending access would be a sort of design principle.

So we thought it was worth spending a few minutes on sharing what, you know, some of the initial thoughts are.

So with that, Joe, should I hand it over to you?

MR. SAVAGE: Sure. Thanks, Rama. And thanks Erik, for helping me with the slides. If you could move it forward one slide.

My goal here is to just go over some of our initial thoughts about design principles. I think Erik and John have given us a very detailed summary of efforts to measure returns on private investments and also what some of the limitations are in terms of current access to alternative investments.

A key principle should be that the policy goal isn't simply to create wider access. Policies that are intended to widen the access also have to be evaluated in part on whether the design pays proper attention to other investment objectives, particularly the objectives of many individual and family investors.

For example, investors or their advisors cannot make rational or informed decisions without knowing or understanding an investment's potential risks and rewards compared to alternatives, you know, particularly traditional retail products such as publicly traded securities or mutual funds.

How is this private investment different, is the risk of loss relatively greater or smaller, what's the investment's time horizon and how much of an investor's assets should be invested in these products, this is all decisions that the investor or an advisor to make and more information obviously would be helpful.

Another key design principle that I think has been talked about by a number of folks before me is liquidity, and that doesn't really mean that private investment has to be redeemable on a daily basis or trading on a daily basis the way mutual funds or stocks are, but investors do need to understand what the
holding period is for a private investment, you know, when and under what circumstances can they liquidate the investment, and whether that period or those restrictions are consistent with the investor's expected financial needs over that period. So a lot of that will have to do with, you know, what percentage of their assets are appropriate to put into an investment in private securities, particularly where there's limited liquidity.

Another goal should be either reducing, or disclosing, or both the conflicts of interest that come with private investments, and again this is part of evaluating an investment's risk and rewards. Certainly, it doesn't mean that all private investments need to be conflict free, but the investor or her advisor needs to be aware what those conflicts are, how they could impact the investor, and whether those conflicts are tolerable to the investor in the grand scheme of things.

To the extent an issuer or product manufacturer can minimize the conflicts the more attractive it will be to investors and their advisors, and in particular we're in the world of, right, the eye of course, and so assuming that is applicable, especially to natural persons who are, you know, investing in these products those are going to be important.

And of course an investor needs to know what the fees and expenses are. If compensation is paid to intermediaries that sponsor or sell the investment, or investment advisors that manage private investments underlying portfolios, investors need to know what those expenses are and how they will impact their returns. As John discussed certain barriers exist today with respect to access to private investments. A lot of these barriers were created with the thought that retail investors simply don't have the capacity or risk tolerance to be in some of these investments. So what we see is a lot of the standards are based on investor's wealth, income, or to a lesser extent financial sophistication. In some cases institutions may have greater access to these investments than individuals do.

And so basically, you know, if we're going to widen access it may be necessary for either Congress to amend the federal securities or labor law, or the Commission or the DOL will have to amend rules, implementing those laws in order to accommodate wider access in some circumstances. So Erik, if you can move it to the next slide, please.

So what should be the principles of wider access? Some of the -- some of these are need to accommodate features of traditional investments, such as stocks and registered funds. These can include things like diversification. Obviously the greater and number and kinds of securities and other assets held in the private fund portfolio the less risk of loss due to poor performance of a single asset or a single issuer.

Disclosure, as I mentioned the more disclosure the better informed an investor or his advisor can be in determining whether to invest.

Transparency of fees and performance, you know, a hallmark of mutual funds and other registered funds is that an investor can easily determine what the expenses are for that fund and also what its performance has been. You know, as Erik went over there's -- measuring performance of private investments is more complex and uses metrics that most retail investors don't understand, like internal rate of return. So that's going to be a challenge.

Reasonable costs, again this is related to fees and transparency. You know, investors may demand that, you know, private investments contain reasonable costs. Again this is probably an issue that's going to come up to the extent these are made available through retirement accounts or retirement plans.

Chaperoning is another issue. Should access be chaperoned, meaning that there's some intermediary kind of making sure the retail investor, particularly those that are less sophisticated, don't make poor decisions based on limited information and understanding. Should there be a fiduciary involved, should there be certain kinds of intermediaries making selections about what the appropriate private investment options should be.

And then also we need to think about balancing investor protection and investor choice. Many of the current barriers that I mentioned before are justified on the basis of they protect retail investors from things like illiquidity or risk that may be associated with private investments, but of course they also limit investor choice, so what's the proper balance.

Lastly, looking at some of the possible access vehicles, some of these exist today, private equity funds or private equity funds of funds are out there, mutual funds that hold a sleeve of private investments as Chairman Clayton mentioned. Closed end funds that obviously don't have to be redeemed on a daily basis, instead trade on a public market, they may have a greater opportunity to invest in illiquid securities.

Whether retirement plans should include private investment options either through a private fund or
perhaps through a registered fund that holds private investments and whether there's other structures.

Again if it's in the retirement fund space, you know, we're going to need to think about traditional fiduciary obligations that attach to those, those investment plans.

Erik, if you could advance the slide.

So lastly, I think what we're asking is committee input, what factors does the committee think are the most important in designing greater access and what investor protections need to be kept. Lastly, what are the next steps you would recommend for our subcommittee. Thank you.

I'll turn it back to you, Rama.

MR. SUBRAMANIAM: Thanks. You know, I think, you know, this design principles, particularly on slide four, you know, happy to hear feedback.

You know, I think in terms of the vehicles that we already have and, you know, echoing an earlier comment about incremental change, you know, I really think the scope within the closed end fund space to perhaps -- you know, not in the retirement account, in the taxable account space to increase exposure to privates.

I know there's been some work that's being done in consideration around the 15 percent limit on closed end funds and on illiquid investments. There's still obviously the accredited investor requirement for closed end funds but, you know, a lot of the disclosure that you get with a registered investment company and a closed end fund could go a long way towards meeting those design principles.

With that, Ed, we've got about ten minutes. I don't know if you want to exercise your prerogative to ask the first question or take questions from anyone else.

MR. BERNARD: I was going to make a comment. Russ, I see your hand up. Go ahead.

MR. WERMERS: Yeah, thanks, John, Joe, great, great presentation. I just wanted to make a couple of observations, first. Some of these I think echo some of the observations the Chairman made.

It seems to me that the best structure for private assets for individual investors is some type of professionally managed fund to fund structure that maybe has a barbell structure, many liquid assets in it, and some sleeve of the illiquid assets like private, private equity or private investments.

An example of this is the Kia real estate account. They own a fraction of their portfolio in small buildings, which I'm sure are not that incredibly easy to value, and they provide the liquidity. So I think they've been around for a while.

Second, second, you need long term investors or at least investors who are not a private kind mis-pricings in the fund. So I think there's a lot of investor protections that need to be considered here, not only pricing, pricing, having the right price in case somebody needs to redeem, that's important, that's why professional management is important, but also having protection, protecting investors from one another like this.

For example, I own a stable value fund and one could imagine timing in exit from a stable value fund at a time would disadvantage others because it's not quite priced perfectly.

I just wanted to -- another thing is that I think there's just a lot of things out there that are private investment like. And John, you brought up a bunch of these REITs, emerging market, retail funds, emerging market debt funds. There are number of things in the Kia Real Estate account. There are a number of things out there already.

It seems like that we should at least think about a way to design this so that there still can be redemption and liquidity. You know, one approach would be to think about redemption fees. If somebody needs to redeem on a date or a month where the pricing is not complete for the private investment maybe charge a redemption fee to dissuade them or at least to charge them the cost that they're providing -- that they're pushing on other investors with the risk (inaudible).

And then last comment is, you know, quite frankly with M&A activity investments in public securities in the United States, in stock no bonds, are kind of running out as 401(k) plans and other investors get -- invest more and more, and pension funds and so on invest more and more in public securities. You know, there's some, I guess some sense of maybe this is pushing the price of public securities up to stratospheric valuation levels.

I just think at some point we have to think about a relief valve for somewhere else for investors to invest.

MR. BERNARD: Great. Michelle, did I see your hand up earlier?

MS. McCARTHY BECK: Yes, I wondered -- I saw some of the choices that were laid out in terms of less liquid or less than daily liquidity vehicles and wondered a little -- if the subcommittee explored that.
Because the -- it requires a great deal of investor understanding if they can't get their funds back on a daily basis, but it is an opportunity and without it we are often -- you know, but putting a 10 percent sleeve of private equity into a more liquid, you know, target date fund we are running the risk that we're transforming the liquidity of that in that vehicle or we would not have to if it had a somewhat longer horizon even, you know, five day, ten day, if that were available in the markets. And so I wondered if the subcommittee had explored those -- that middle set that was shown on one of the slides of less than daily liquidity vehicles.

MR. SUYDAM: Rama, it's John, I can take it. We haven't spent a lot of time on it yet. You know, we've begun to look at it, those structures that exist. Sometimes -- you know, some of them in their present form are I would say a little bit expensive, but certainly it is a road go down and look at from an investor protection perspective to get some liquidity balancing against a set of assets that may not be as liquid as you would need to provide daily liquidity.

MR. SUBRAMANIAM: Yeah, I would just add that, you know, I think to date we've grappled with, you know, the illiquid asset in the daily liquidity, which you already have I guess in some mutual funds and other things versus a diversified portfolio of illiquid investments, right, where you get your diversification but they're all illiquid.

I think, Michelle, you're talking about something sort of in between and, no, we haven't explored that as much. But, you know, those are kind of the two extremes right now. You can get diversification in small, illiquid in a liquid investment with daily liquidity or it's illiquid because it's part of your portfolio where you don't need the liquidity but you still want to have diversification, right. This might be somewhere in the middle.

MR. BERNARD: Gilbert, I see your hand up.

MR. GARCIA: Thank you, Ed. My only caution is, you know, I sit on a pension board and I've been a trustee on various pension boards over the years, and even some of the most sophisticated trustees and some of those that are very well versed in markets and so forth have great difficulty understanding private equity, gen curve effect, internal return versus growth on money, those sorts of concepts.

So I just want to make sure the committee really considers what's the education element to make sure we don't sow the seeds for the next, you know, challenge.

MR. BERNARD: Fair enough. I don't know if, Rama, if you want to react to that.

MR. SUBRAMANIAM: No, I don't think we disagree with any of that, Gilbert, and as we said -- as Erik says, you know, MOM, multiples versus IRR, how do you, yeah, how do you kind of square that away with people understanding what they're getting into.

MR. BERNARD: Yeah, right. I have to say one of the terms as far as I concerned your group coined of chaperoned access, and Joe mentioned it, which I think is a terrific concept, and I look at that in the context of, you know, Ludo Philip who I think we would agree made some pretty challenging comments about these asset classes and yet he said in the Q&A, look, if you could bring to bear a regulatory regimen equivalent to that of the (inaudible) to these investments, you know, that would be a big step forward, it would be a safe way to do it.

And I think that what you all have discussed, one form of chaperone -- chaperoned access, is to embed it as a sleeve of an open end or closed end fund, which brings the entire 40 Act to bear and obviously puts professional investment managers in the middle to make appropriate assessments about complex investments and how and whether they fit in the portfolio.

So that seems to be a theme that you guys continue to develop. Is that fair, Rama?

MR. SUBRAMANIAM: Yeah. I think, you know, a good point you made about Ludo, you know, he was pretty controversial but if you kind of step back from it his issues were around measurement or use of IRR, and track record, and transparency, and he had an issue with, you know, the amount of fees, but I would argue, you know, they're free market, the market should set the fees, right.

But I think even -- he did say at the end as you said, Ed, that he -- you know, he didn't disagree that the returns were, you know, as good if not better, it was more around how you disclosed, you know, the returns, and disclosed fees, and transparency rather than finding a mechanism that makes it comparable and transparent for investors is the challenge.

But, you know, he wasn't against I would say private investments, it was more this sort of IRR track record, marketing, and, you know, the fees making some people insanely wealthy, which is more a social issue rather than, rather than an investment issue.

MR. BERNARD: Yeah. That's a great, great presentation, great discussion. Any other -- I think I
can -- let me just flip and make sure I can see everyone. It looks like I'm getting everybody on the front screen. So any other questions, comments?

We are right on time.

MR. SUBRAMANIAM: Any other questions --

MR. BERNARD: I'm sorry?

MR. SUBRAMANIAM: Dalia has a question.

MR. BERNARD: Oh, Dalia, I'm sorry, go ahead.

MS. BLASS: Thank you, Ed. Just a question on Michelle mentioned just on alternatives, that middle group of vehicles, and in particular the closed end fund structures, the interval and tender structures.

So Rama, you had mentioned the 15 percent. So the intervals, you know, tender offer funds, they don't have a liquidity requirement. There is a 15 percent that is a staff imposed limit on funds, you know, if they are investing in the private equity or private fund space, then if they invest, you know, they -- if they invest there's that sleeve, otherwise they have to -- it can only be offered to AI sort of the basic structure of it.

And, you know, the staff has been exploring whether, and how, and if to lift that staff imposed limit but, you know, we've put out questions, and I've put them out publicly as we look at that. You know, and the answer is yes, definitely. You know, it's something I've discussed with Ed and a couple of members of the subcommittee. Along that vein of if we have a structure now that is suitable, even if it might require some modification, that's a much better way to move forward than kind of with a completely new one, right.

So we think the closed end fund registered investment company with all the disclosure and fiduciary obligations is right as, you know, one of the primary methods for broadening access for sure, yeah. But we need to I think just, we need to spend a bit more time looking at it and be a bit more specific on suggesting or recommending any changes that might be required.

MR. BERNARD: Yeah, and I think that's one that Christian and the team, and they've been so helpful on many practical and legal issues, and I'm sure they could help us, help the subcommittee in terms of understanding the details around what you just described, Dalia, so that the committee can, I think to Rama's point, take full advantage of what already exists instead of trying to create new structures.

Any other questions or comments? Great. So I'm going to suggest we take a break until 10:45 and then we'll turn it over to Michelle. For those viewing on sec.gov you'll see a holding screen and we will be back with you at 10:45 sharp.

(RECESS.)

UPDATE FROM THE ESG SUBCOMMITTEE AND DISCUSSION OF POTENTIAL RECOMMENDATIONS.

MR. BERNARD: Okay, let's get started again.

Next up is our ESG Subcommittee chaired by Michelle McCarthy Beck, and as Michelle will explain they're getting closure -- they're getting close to potential recommendations. So I'm sure that the committee has been engaged with your views and questions, and obviously we've already gotten some input for the committee from this morning's earlier remarks from the Commissioner.

So Michelle, take it away.

MS. MCCARTHY BECK: Thank you so much, Ed.

And let me share my screen. So here -- hopefully, that will be coming up in a moment. Okay, and let me get this in the full screen mode.

So thank you so much for having us back again today. I want to start off by thanking my fellow subcommittee members for all of their diligent work and activities that got us to this point. So Aye Soe, Jane Carter, Jeff Paik, and Rich Hall, thank you very much, and also to you, Ed, who managed to attend quite a few of our meetings and contributed some very nice material.

I'm just kind of wondering whether the committee plans to take some time to look specifically at that structure, which has the right mix of, like, lack of liquidity if you will because they're not supposed to be liquid vehicles, they are not -- they don't have the daily redemption. But there are issues that we have been exploring, including the compensation structures, you know, you know, the investor protection issues perhaps, which is why the staff has historically had the 15 percent limit.

So just wondering if the committee sort of plans to look at that structure specifically, which seems more attuned to providing the access to retail investors and at the same time perhaps in a protected way to address some of the issues that Erik had noted, you know, in terms of the tremendous complexity with understanding the performance, and the returns, and everything else with sort of picking up these private investments.

So just wondering if that's something that the committee plans to spend a bit more time in because it seems to be a ripe structure for that investment, with sufficient protections, but obviously some challenges there too.

MR. SUBRAMANIAM: Yeah, I think the short
So since the last meeting we had -- I’m going to refer to this class of funds that have certain things. So we’re -- we really just called them that for instance issuer disclosure is inconsistent which I will be discussing, and then Aye Soe will talk about some of our observations on performance measurement.

So the next steps will be (inaudible) at the next meeting for final recommendations. And as you heard from the great discussion that kicked off the meeting, reasonable minds can come to different conclusions on this. We really do want to use this session as a chance to discuss with the AMAC membership how we got to these conclusions, and what your positions are on that, and what you think about that so that when we come with our final it reflects all of these great conversations.

So since the last time we were updating the AMAC we have done a few panels. We convened a panel of investors of service providers and other experts to really understand what do investors need with respect to ESG information and what’s their point of view.

And then we also convened both representatives for industry groups and other investors to understand what’s the right way to approach ESG investment for disclosure. The piece that we have yet to do more is to reach out to issuers groups, and that may affect these results, and I think some of the Commissioner's comments pointed out that if our recommendations squarely put a burden on them that this -- you know, that they can help us to understand that better.

We did find through the conversations we had with investors and service providers that their view of what investors -- sorry, that issuers need, that issuers could use more guidance in this area but, you know, we do need to bring that extra perspective on the work.

There’s one other correction we want to do. In our previous presentation when we talked about the Names Rule, the slides represented that the Commission had said something about it being a strategy for purposes of the Names Rule, yes, using a strategy. And so we became aware that’s not the case. There’s actually conflicting comments and statements that do not suggest the Commission takes a position of that sort.

We do think that’s the best treatment for ESG.
that may not always be picked up very well by classic performance and risk measures. Measures of draw down are good risk measures that pick up that risk a bit more, but it's worth noting that just because sometimes the performance measurement literature doesn't pick these up as being different it may be because of that different return and risk profile that people are trying to tune into.

But the final bullet point is a pretty big bullet point. They may have objectives that fall outside the risk return objectives alone and those objectives can be anything from concern about impacts on the environment, impact on social values. They can sometimes be religious concerns and people wanting to adhere to their faith. So there are objectives that may not be captured through pure risk returns that are important in this, in these vehicles.

So those three things make this category somewhat different and we thought needed something of a different approach, but we certainly appreciate that, you know, there's a lot of argument that could be made about that.

This final bullet point is sort of the crux of the issues, is the problem here important enough to require a solution and the kind of solution that we propose in our preliminary recommendation or our potential recommendation on issuer disclosure.

So our case is mainly built around the -- that investment products could be misleading to the investors investing in them without some sharper focus on improving the data. And then also shareholders and issuer securities may not be getting the data they need, especially to assess event risk, environmental risk, and so forth in order to invest sensibly.

So it's a main street question. But also -- you know, we -- the folks in our room are members of the asset management industry and service providers, and so while we may see how it would help our process and our ability to invest on folks behalf we do appreciate that's not necessarily the end goal of regulation. So we do think what we're suggesting is about investor protection but, you know, a reasonable mind could disagree, and so we should have a vibrant discussion about that. After each of our sessions -- in fact, we'll pause for questions. I can take the screen sharing off to make sure that you, you know, we have a chance to get your guidance.

So the overview. Our recommendations are that we focused on issuer disclosure as improvements in issuer disclosures availability, consistency and the meaningfulness of risks related to environment, social and governance factors would allow better transparency and better performance measurement accuracy.

We do not believe the rules about disclosure need to change, they are sufficient and strong, and issuers already have to disclose material risks. But what we found in talking to investors was they are not seeing it happen consistently for risks that they do consider to be material. The point made earlier that, you know, we have a system where issuers do determine their material risks is an important one.

This was -- so the question would really be, you know, what's the right kind of intervention, and again I look forward to the conversation.

We in our recommendations did want to minimize the burden and create clarity and simplicity for issuers who are trying to figure out what do they need to disclose, how do they attract the investing community if they have a good story to tell.

So the thing that was important to us and what we're asking for is we want there to be a minimum number of material metrics. They need to be tailored by industry. We are not trying to emulate the approach in the EU. So in the EU there's a more fulsome requirement for, and essentially (inaudible) measures to have to disclose some of these factors, which is a difficult thing to do if the issuers aren't disclosing them, so we wanted to avoid that.

Suitable for the mandate of investor protection we don't need to create a dashboard for monitoring every element of climate risk across even issuers where it's not really a factor. So we want to make sure that where it is really a factor and could cause actual loss for the issuer that those tailored metrics by industry are available.

And then in the case of investor product disclosure we wanted to -- we took onboard the fact that trying to mandate some particular form of disclosure would stop the development of the industry, which is very difficult to do if issuers aren't disclosing the metrics needed for it. But there would still be some helpful best practices that would be -- we would like to see investment products be aware of and undertake, so mainly about disclosing their strategy more clearly using something of a more unified taxonomy and also some observations on the way ownership, share ownership responsibilities are handled by investment products. So we'll get to that in a few minutes.

So I'm going to move now to Jeff Pukh to help us -- to lead us through the recommendations around
issuer disclosure.

MR. PTAK: Thanks, Michelle. Good morning everyone. I wanted to start by thanking Michelle for her leadership and also Ed for the guiding hand he's provided to our subcommittee as we've worked through some of these issues. I think Michelle has done a really good job of setting it up. They're knotty issues indeed, and so it's been really helpful to have the leadership and oversight that we've gotten from Michelle and Ed, respectively.

I also wanted to thank the staff of the Division of Investment Management for being present as well and helping us as we've proceeded through the work and making sure that we were appropriately targeted in doing so within the context of work that either already happened or is ongoing. So thanks to all of you.

I'm going to talk about issuer disclosure over the next three or four slides. I guess I'll start with a bit of levity. Anytime I say ESG you can take that to mean E, S and G. I figured I would score one point right off the bat.

But these are potential recommendations regarding issuer disclosure of ESG risks. There's a few animating principles here and we've tried to lay them out as clearly as possible, and so I'll go through these one by one.

Our potential recommendation to the SEC should require the adoption of standards by which corporate issuers disclose material E, S and G risks. They would utilize standard set as frameworks to require disclosure of material E, S and G risks, and they would require that material E, S and G risks be disclosed in a manner consistent with the presentation of other financial disclosures.

So again material, disclosure of material E, S and G risks and doing so in a way that's truly integral to the set of information that is presented to investors, those were key animating principles for us.

Why don't we jump ahead a slide, Michelle, if we may. Thank you.

In terms of standards we gave a great deal of thought to what would make for a good set of standards. And you can put quotation marks around the term good as I know that there is -- there's quite a bit of constructive disagreement about the necessity of let alone the form of what would be considered good standards. But we gave some thought to this and there were a few criteria that we thought should be applied.

One is that they should be thought of as authoritative and binding, akin to generally accepted accounting principles. I note the Commissioner's comments at the beginning of today's meeting that there are misgivings that they have about this concept, but there is -- I would say there is ample precedent for it in the sense that I think some 47 years ago I think later this month we had Accounting Series Release 150, which essentially enshrined FASB as GAAP.

And so I think that in a sense as we think about what sort of protections we afford to investors we face a similar sort of choice that perhaps policymakers, regulators face at that moment in thinking about how it is they could drive uniformity, meaningful, comprehensive disclosure and other financial information and make that available to investors in a way that inspired confidence.

But this notion that it be authoritative and binding, akin to generally accepted accounting principles, was one of the criteria that certainly we thought these standards should meet. It should apply to disclosure of material E, S and G risks and guide issuers in determining whether an E, S and G risk is material or could become so in the future.

You know, I would point your attention to the fact that -- and I realize that we have a myriad of different sources of potential standard frameworks, but there are a number of different materiality frameworks, maps if you will, that have been developed to guide issuers in determining whether for their particular sector or industry vertical an issue should be considered material or not. So there's quite a bit of work to be done and we would acknowledge that there's still work that needs to be done to further develop the concept of materiality, whether it be a universal standard or something that's more tailored to the sector or industry concern.

And then also we thought a third criteria is that the standard should ensure ESG disclosure -- E, S and G disclosure comprehensively addresses all material E, S and G risks meaningfully conveys the issuer's exposure to each material E, S and G risk and allows uniform comparison of material E, S and G risks across industries and, to the extent supportable, specific comparison within industries.

Why don't we jump ahead another slide.

Thanks, Michelle.

In terms of standards that are disclosure frameworks we thought there were a few objectives that should drive those frameworks. They should clearly articulate the principles by which an issuer determines the backward looking quantitative and forward looking
qualitative metrics and disclosures that should be presented on material E, S and G risks.

There should be prioritization of material ESG risks that are applicable to most issues where there's a certain universality to them. I know that it can be argued and observed that that already applies to a number of different governance disclosure standards and I would say that the emerging sort of field would be climate and environmental related disclosures, which touch a number of different sectors and industry verticals, albeit not in the same way but there is a certain universality to them.

And then mandate disclosure of all material E, S and G risks by all issuers with appropriate exceptions considered for issuers that the SEC determines might suffer undue burdens in meeting the requirements, such as smaller issuers.

I think that we heard Commissioner Roisman earlier mention that, you know, one of the constituencies we certainly have to consider in the process of interacting with our issuers and considering the burdens that they face in preparing the required information and producing disclosures and also litigation risks. And so this acknowledges the fact that there could be some burdens on issuers and those should be taken appropriately into account.

Why don't we move one more slide if we may, Michelle.

We thought for sake of conversation, and this is potentially the pinata slide in my presentation given that we recognize in an area that is nascent and fast developing as ESG that there can be quite a bit of constructive disagreement on what disclosures are warranted in which sectors and industries. But this draws on some work that colleagues of mine have done in actually poring through issuer documents.

We sought some examples of where ESG disclosure is -- where there was a paucity of that disclosure or it wasn't as uniform and consistent as perhaps it could be. And so we've given you an example of a few industries here: real estate, food products, chemicals, and pharmaceuticals. You can see that the material E, S and G disclosures they vary from industry to industry.

I would note that roughly two-thirds I believe of the disclosure examples on this slide are climate and environmental related and I think there is none on governance. I think that reflects the fact that one could argue the need is most acute when it comes to E disclosure of material environmental risks that are being faced by firms in different industries.

But you can see in certain of these cases we've indicated where the disclosure rate was particularly wanting, and that presents challenges to investors who are relying on the information to draw conclusions and form what we hope are sound judgments about the merits of the securities that they're considered. But we wanted to hang a few examples on some of these concepts just to try to bring them to life a bit.

And with that I think I'm going to go ahead and turn things back to Michelle who is going to, I think going to talk about investment product disclosure.

MS. MCCARTHY BECK: I am, but I wanted to pause for a moment to see if any of the members wanted to really dig into this question on issuer disclosure. We'll have another opportunity at the end but wanted to see if we had any questions or observations among the group. Looking for hands there.

Okay. Well, seeing none I'll go back to sharing the content and then we'll pick it back up at the end. Sorry, it takes a moment to kick in there. There we go. Hopefully, this slide will move. Okay.

It's decided un-share. Be right back to it.

So now we move onto the discussion of investment product disclosure. So here we went with suggesting best practices rather than a mandate because we felt that, firstly, a mandate doesn't work particularly well when the issuer disclosure isn't in place.

Secondly, we thought that it would artificially constrain development of the industry at kind of an early point. It's worth noting when it comes to issuer disclosure those sorts of disclosures that Jeff was just showing are, you know, what are thought now to be important.

The concept there is to allow that to develop over time. You know, the use of something like a standards board can help to filter through and remove things that aren't material, add things as they become material, just as other parts of the profession continually evolve. But the idea that (inaudible) right now, the way investment products use ESG, wouldn't make as much sense.

So we went with suggesting best practices to enhance ESG investment product disclosure and we specifically mentioned the taxonomy developed by the Investment Companies Institute ESG Working Group. It had very broad industry representation. And as we have talked with the investors and others in our panels and
some of our firms, people believe it's a reasonable way to breakdown these strategies into ways that are comparable.

The product disclosures should include a clear description of each product, strategy, and investment priorities, including a description of non-financial objectives, and we note such as environmental impact or adherence to religious objectives. You will see we want to see a little bit of (inaudible) because it's not always clear when people give a list of these objectives which one are there top objectives and which ones they'll weigh more highly than the others.

And then we further have a potential recommendation that investment products, there should be a suggested best practice to describe overall the approach to share ownership activities. In the statement of additional information is what we thought was the best location for it. And any notable recent ownership activities outside of proxy voting and shareholder reporting, the proxy voting is already reported in MPX.

The purpose here for certain funds, this won't really -- there won't be much here. For some, though, it's a linchpin of their strategy and so it needs to be described and then the followed to a certain extent.

Certainly, that would be a best practice if that is meant to be an important part of your strategy. We note it here because it's a -- it was a repeat theme in some of the investment products that we've seen. And again there are -- some people were using it more casually than others and we thought it was a best practice to really be clear on what you expect to do in terms of share ownership activities.

So when we -- in my first recommendation or potential recommendation we mention the investment companies institute ESG working group taxonomy. Strategies could be classified in one or more of the following categories. Do they include securities based on some kind of a filter, do they exclude securities based on some kind of a filter, or do they include securities based on some kind of impact on a wanted outcome.

So good disclosure should discuss how the product carries that strategy and objectives. It should give a bit of priority. It should also reference, we suggest in the longer document that we included with the meeting materials, it should also reference the use of third parties, so is this internal research only, is it using some external party. Those would all be very helpful things for people that are selecting among investment products.

With ownership activities we call this kind of following group, those activities, how they expect to vote proxies, whether they engage management individually or participate in collective outreach to management, are they expecting as a key part of their strategy to lead shareholder motions, or anything else that's key to their strategy. So we thought it would be helpful to suggest to folks if they're going to say that they do these things to note them in the statement of additional information and then periodically report on their activities in shareholder ownership activities.

So that is the summary of our recommendations on investment products disclosure. I was going to turn now to Aye Soe to talk about where we got to on performance measurement.

I'll pause for a moment and note we had five workstreams. We had one that was about value versus values, we had one on proxy voting, and we folded those into the investor disclosure workstream because they were all aspects of this form of disclosure that we thought was covered by this recommendation. But we did also have a performance measurement workstream that we heard about at prior meetings that Aye lead, and I wanted to pass it to her to talk about that conclusions that we came to.

MS. SOE: Thank you, Michelle. First of all I'd like to thank Michelle for leading the subcommittee and also to Ed for contributing greatly to our discussions. They were very, very fruitful and very interesting. And I also would like to thank the SEC staff for their help.

This workstream is structured as observations rather than recommendations for a number of reasons. At the beginning we started tackling with the goal of does ESG contribute or do ESG factors contribute to outperformance or to excess returns.

The subcommittee reviewed a wide range of practitioner and academic research studies with respect to impact of ESG factors combined as well as E, S and G separately and the contribution to performance. We find that there was no clear picture that ESG factors definitively contributed to outperformance. There was no -- because there is no clear picture we do not have any conclusive, you know, statements on whether ESG contributes to outperformance or not.

The subcommittee also explored whether it should take any action regarding performance reporting for ESG related investment products. We looked at the existing SEC requirement for performance disclosure as a
starting point, and our view is that ESG should not be
treated any differently than any other investment
strategy, for example value, low value, or any other
investment style.

Our understanding is at this stage in the ESG
investing calling for additional performance metrics or
detailed performance attribution is not achievable due
to lack of uniformity in disclosure and the issuer data.
One of the key components of SEC performance disclosure
is also the requirement to benchmark against the stock
market index.

If you recall earlier when we started on this
workstream we discussed like what is the right way to
measure the performance of benchmark ESG strategy. We
explored whether the use of a secondary or sale adjusted
benchmark is necessary or not. Our conclusion is that,
you know, at the moment the subcommittee believes that
for a number of ESG strategies, particularly, you know,
as Michelle mentioned allowing impact exclusion and
inclusion, a secondary or an ESG benchmark could give
investors with additional around performance.

But however rather than being descriptive, I'm
sorry, prescriptive and mandating the use of the
secondary benchmark, at this moment we find that the
practice should be determined by investor's preferences
and need.

So with that I will wrap up the presentation
and turn it back to Michelle.

MS. McCARTHY BECK: That's great, Michelle. Sorry, I'm
having a little trouble with the buttons here.

So for our next steps -- first, do we want to
have a conversation now where you can think through some
of the issues that we raised and some of the points
you'd like to make on them. We appreciate it and we've
had comments from several folks on our preliminary
document and we really do appreciate that.

We do expect to follow up with some check-ins
with issuer groups to make sure their point of view is
represented and better understood. And we do plan to
come to the next AMAC with final recommendations that
are informed by all of these conversations.

So I'm going to go ahead and stop sharing my
screen and see if there are folks that have thoughts or
observations on this topic or questions about our
process. I see Scot Draeger.

MR. DRAEGER: Yeah, thank you, Michelle. And
first, thank you so much for a thoughtful presentation
and terrific work by the subcommittee that obviously has
gone to great lengths to get input from all
constituencies, so thank you.

The feedback, I think your recommendations on
enhanced issuer disclosure are terrific and your
observations regarding performance measurement make
perfect sense. I do have just a curiosity, a question
on the conclusions regarding the current adequacy of
disclosure in advertising for investment products.

I guess I think of one of our most important
goals and opportunities in this area is to reduce sort
of confusion for individual or retail investors, or main
treesters if you will. You know, I think that the
source of the confusion right now I think it's easy to
agree is the reality that funds and RIA branding of
their strategies generally as environmentally
responsible or socially responsible ESG, SRI, green,
sustainable, what have you, those labels can currently
be used with the ability for the managers to define
those terms however they see fit and oftentimes having
very few restrictions or limitations on investments and,
therefore, really unreliable as far as a main street
investor is concerned who is relying on the advertising
of how the fund is advertised.

Because as we know you can call something
green as long as the SAI and prospectus disclosure,
which is nuanced, and lengthy, and sophisticated,
details how you define those terms, and as long as you
comply with your own disclosure you've essentially
fulfilled all of your legal and regulatory obligations.

But there remains sort of a disconnect for investors
who, you know, when you ask them what is it that you're
looking for and they say I just want to know whether the
fund invests in companies that have a history of good
corporate stewardship on the environment or what have
you.

How do we -- how do we approach -- how does
the subcommittee think we can approach trying to resolve
the investor confusion in light of I guess the realities
that currently exist in the advertising and disclosure
regime for funds and SMA strategies?

MS. McCARTHY BECK: That's a great question,
Scot, and I'll take a start on it and if any of the
other subcommittee members just want to pipe up let me
know.

It's why we focused on issuer disclosure
because until there is more consistent, verifiable,
public information having a litmus test is really
difficult to do for any third party ability to verify or
the investor's ability to verify on their own.

So that, that was why we were focused. If the
issue is about truth in labeling, investor confusion,
and consistency of the investment products, none of the
other interventions that we can come up with would be as
able to craft that as issuer disclosure.

So once you have more consistent, meaningful,
material disclosure then there -- the investor on their
own has a chance to filter stocks based on that
disclosure, to verify the strategy meets their needs, or
a third parties who serve then can do so.

You know what, I was really thinking about as
the Commissioners made their comments is there's a lot
of things in life where, you know, people are doing
research on things that are not necessarily part of an
issuer disclosure that causes to select assets, and if
they're really good at it it adds alpha. And so the
answer isn't to disclose everything that could be
possibly the subject of research, because that's
somewhat impossible, but the -- if there's a track
record for a given factor leading to meaningful losses
for companies it probably does belong in the set.

If that track record was available and comparable I think, Scot, it would make it more possible
to ensure the investment product has truth in labeling
as well.

Jeff, any comments on your side on that one
either?

MR. PTAK: No, you said it well. Nothing to
add.

MR. DRAEGER: Thank you.

MS. McCARTHY BECK: It looks like there's a
question from Russ.

MR. WERMERS: Thanks, Michelle. I heard you
say I think, and correct me, that the risks of ESG
investments are quite difficult to measure in the short
run because these are (inaudible) risks, and that's
exactly correct. These are risks that, you know, don't
play out on a daily basis, weekly, monthly, even yearly.
They're decade long.

So the point here I guess is that measuring
alpha is incredibly difficult for these type of things,
and I'm not sure -- you know, we can always also get
into an argument about the philosophy of what alpha
should be, should it be just the market return
multiplied by data, and so on and so forth. The
measurement area is just huge here.

And because of that I would urge the
subcommittee to even put more emphasis on, you know, at
least at a theoretical, recommending that a secondary
ESG benchmark be required or at least strongly
recommended. And I know that that comes with issues
because we have different ESG funds, that have different
ESG strategies that, you know, we wouldn't -- we
wouldn't benchmark a value fund, a small cap value fund
against the S&P 500 Index. I think that ESG funds are
like that, multiplied by about ten in terms of their --
the likelihood that they're going to over the short run
out -- out or underperform any kind of broad based index
that we find out there. So just a comment.

MS. SOE: Hi, Russ. This Aye, and thank you
for your comment. I -- you know, my philosophy and my
thinking is very much along the same line, and Michelle
and Ed will agree that during our discussion we talked
at length about starting with the point how should we
view ESG, is it an investment style along the same lines
as goals and values. I mean, if that's the case there
are established, you know, procedures and performance
measurements -- methods, performance attribution,
analytical systems, that are designed to measure whether
a manager is really taking on the compensated
(inaudible) or not.

However, you know, when we get into the
discussion and trying to treat ESG in the same vein as
any other investment style or factor we went into the
issue is that Michelle mentioned earlier there isn't
enough disclosure or standardized metric to really
contribute, okay, the manager take on bets with regards
to ESG and, you know, it paid off or it didn't paid off.

So we went into that and I do agree that when
we look at the Blue Sky and in the perfect world having
a secondary style adjusted, data adjusted, industry
adjusted benchmark makes it an apples to apples
comparison for sure just as much as we wouldn't, you
know, compare S&P 500 Value Fund to a, you know, to S&P
500 because it won't -- it wouldn't be apples to apples
comparison.

So we did discuss at length some of the points
that you brought up.

MS. McCARTHY BECK: Thank you. I see a
question from Gilbert.

MR. GARCIA: Thank you, Michelle. I
congratulate you and the committee because I think what
you really highlight is how complex this issue is, and
so I thank you.

My only comment really is -- I guess it's in
the truth of lending vein or the advertising vein. Is
there some sort of minimum threshold that a manager
that's managing some type of ESG fund and is now going
out saying it's E, S and G, is there a threshold that
they themselves should abide by in the E, S and G,
particularly the S and G, before they even, I don't know
allowed to be able to put that type of able on their
fund?
MS. McCARTHY BECK: That was the question we debated and we thought at the very least if they disclose what do they mean by it, how do they carry it out in their strategy, that gives the investor a good ability to scrutinize that and decide whether it meets their test for what someone should be undertaking.

So that's why we, you know, we thought the focus on at least describing what you do and how you do it in words that can be possibly compared across investment strategies such as inclusionary and exclusionary impact was helpful.

It was interesting as we were -- as we've been having this discussion I was thinking about in the case of G, the government, the governance data, there's some very objective things that were quite easy to find about governance, and not -- not coincidentally the performance attribution to governance factors was a little sharper and crisper.

So is the CEO the same person as the chairman.

That's something that's -- that's something that governance funds often don't prefer. You can find that in public information.

So that was one of the things that inspired us to say a parsimonious set of public information can be used as a litmus test for certain kinds of holdings and also then can lead to better ability to validate the strategy and attribute performance to it. So it's a -- you know, you have to build to that and it's not a quick fix, but that was, that was why we emphasized really issuer disclosure of key material metrics.

MR. GARCIA: Would your committee be opposed to these managers or entities having to at least disclose their own demographics as part of the process?

MS. McCARTHY BECK: That is clearly one in the S world. That is something that can be a factor that people can be seeking. I like the idea of trying to use a standards board for that concept of what is material.

And so we weren't in these set of recommendations trying to ensure all of the things that you might want to have happen at a company, it was about disclosure of material risks, which actually concentrated demographics could be.

But we -- you have to pick some and can't pick everything, and that's why the idea of a good standards board to assess which ones really are material would help to avoid us, you know, asking issuers for the phone book every time they have to do their disclosure.

Any other questions or comments for folks on the committee? Renee.

MS. LAROCHE-MORRIS: Hi, Michelle. Thank you.

The presentation was very good.

I guess my question is a little bit around the EU and as, you know, their regime sort of goes into effect in March of next year and some of the U.S., you know, fund managers could be subject to some of their regime requirements if we market in the EU. I think --

I'm interested to understand how we ensure that although we might not want to follow the EUs, you know, path how do we ensure that we're not creating disclosure recommendations that really conflict with some of the, you know, rules and regs we're going to have to follow in the EU for the U.S. managers?

MS. McCARTHY BECK: That's a really good question. I thought of our recommendations or potential recommendations as a minimum standard that could be used for folks that don't have EU funds they could, if they say what their strategy is, say whether they're using inclusion and exclusionary impacts and so on, that was a minimum standard.

If folks have more they can offer and that they have to offer for similar vehicles elsewhere they would certainly be welcome to do so and they -- and that investors may -- the more serious they are about a given topic the more disclosure they're going to want about how the fund enacts it.

What we didn't want to do, because we heard over and over again from folks that are trying to comply with the EU regs was that they're really concerned they're in a bind, but they don't have the data they need from the issuers to do that, and that made have been a forcing function used by the EU regulators to create a demand for ensuring to do better disclosures, but it's really pushing on a string and it could be punitive for those folks that are trying to do good disclosure but really can't pull something from public data.

So we focused more on the issuer side rather than on the investment product side for that reason. We were also a bit more focused on what we -- you know, how we see the SEC's mandate of investor protection and regulated markets as opposed to -- if your objective is to make sure the climate is monitored around the globe you would do it differently and it would mean even tiny issuers with small climate exposures you'd want to log every single number.

That's not what we're asking for here. We're not trying to create a blinking dashboard of the entire climate, but for folks investing in a company to let them know what the material risks of that company are, and that is a smaller standard than really the EUs.
approach, which is more, is more comprehensive to the
questions.
What we worry about the more comprehensive
sort of questions is it could cause disclosure expense
without benefit for a given issuer's securities and that
people would have to have an enormous table of tiny
risks that they're reporting on. That's not the way --
that's not what we think is needed in the area of issuer
disclosure. It's already a lengthy set of documents, a
lengthy set of burdens. It's really about materiality.
MS. LAROCHE-MORRIS: Thanks, Michelle.
MR. BERNARD: I see Dalia's hand up, Michelle.
MS. McCARTHY BECK: Hi, Dalia.
MS. BLASS: Hi, Michelle. And thank you all
for such a great presentation. It was -- it's really
helpful in the context and the setting.
So I still come back to -- all my questions
are on the table, but in particular I want to focus on,
you know, the materiality standard that, you know, the
Commission historically has looked to with respect to
risk disclosures and, you know, whether your, you know,
draft recommendation would change that.
And in particular something that jumped out at
me when I was listening to the presentation is the
idea, you know, that Jeff mentioned that perhaps for
smaller issuers there might be like a tiering or a
different standard. And, you know that's something that
really would be fundamentally different. If there's a
risk disclosure there is a -- if there's a material risk
disclosure, there's a material risk disclosure and size
is not indicative.
So, you know, if we could just come back to,
you know, how does this change or potentially change the
materiality of risk disclosures that has been the
standard norm and for the smaller issuers, you know,
cross benefit that may assist them, but also could it
leave them behind, so is there a capital formation
impact, you know, for these smaller issuers.
And just finally, you know, a comment or, you
know, I'm really glad that the plan for the committee is
to engage with the issuer community because obviously
this would be a very fundamental change for them. So
it's really important to get that viewpoint as well as
you continue that process.
But if you could speak a little bit more to
the smaller versus bigger issuer, the capital formation
impact and the change to the materiality standard, I
think that would be helpful. Thank you.
MR. PTAK: Sure thing. So maybe, Michelle,
I'll take this one so it focuses on issuer disclosure.

So I don't think that our potential
recommendations contemplate a fundamental rethink of the
way the Commission has approached defining financial
materiality. I think that we drawing on the work that's
been done and what you might call the third party
standard setting community, you know, tended to focus on
that nexus of financial materiality and some of these
other categories of risk that maybe aren't being as
consistently and richly presented to investors as they
can.

If we think of climate and environmental
related disclosures, or perhaps there is financial
materiality to them but the disclosure practices can
vary considerably even within a particular industry
vertical creating challenges for the investor who's
trying to ascertain what those risks could mean to the
company's future or do a comparison to other peers
within in that industry. But again I don't think that
we imagine that, you know, it's time to sort of cut our
previous definition of materiality to ribbons and start
anew. It's really about sort of that nexus and how it
is we can drive even richer, more comparable and
meaningful disclosure in these areas where there is an
emerging need for it, you know, climate arguable being
one of the most pressing of those.

As far as -- as far as sort of the
delineation, sort of that hardship delineation that you
were referring to, so small issuers versus large
issuers, I think in the past there were different sort
of reporting standards that perhaps do apply to foreign
issuers, right. And so I think that this is one of
those cases where, and I'm seldom accused of being
pragmatic, but in this case it was actually a nod to the
pragmatic knowing that in some respects this is an
underdeveloped area. For all the progress that's been
made it's still an underdeveloped area, particularly at
the issuer level. And so there can be burdens on them
that perhaps we as those who have tried to thoughtfully
recommend best practices aren't aware of.
So it's really sort of creating, sort of
making the suggestion that there might be some
allowances that need to be made in some of those
situations where we find that the cost benefit analysis
is upside down for some of these issuers and also the
investors who would be considering them. But again
including that in there was not meant to sort of invoke
some sort of reconsideration of materiality all together
or, you know, to suggest that there needed to be
different bright lines for materiality depending on
types of issuers. It's really just looking at the
pragmatics of the situation if that makes sense.

MS. McCARTHY BECK: Another observation about it was we were trying to -- we were presented with a couple of things that we were trying to reconcile. So what we heard repeatedly, and again it was the panels that we went to and the folks in industry we went to, what we heard repeatedly was if they're supposed to be reporting their material information we're not seeing this happening consistently. So there's something, some kind of a prod, you know, was something we heard investors asking for because they were finding it was difficult to find, it wasn't with their financials, it was two peers that both have the same risk and only one is reporting it.

So the standard of having the issuer figure out their own materiality wasn't working for investors in that case. You know, that maybe true in a lot of areas, but that was one thing that caught our ear. The other thing that we wanted to avoid was really having a rabbit hole of disclosures for folks, an infinite set that never ends. So we were just trying to manage that, and this idea of chairing by size of issuer was a concept we had that may not work under the, you know, the laws governing materiality. The thing we noted, though, that when you look at the numbers of disclosures that might be needed the governance set is fairly constrained. The environmental set you can also put a box around that. Social I think is what concerns everybody that, you know, you could -- the different ways companies could interact with people's different values or issues that they see as important seems like it could be infinite. So that is something that we received a lot of cautions about.

We also know there are approaches to social issues that can create a very material risk event for companies and that it's -- so it's not a trivial or just a matter of taste, but something that can create real losses. So we were trying to balance the need to -- we were hearing that material things aren't necessarily being disclosed and it makes it really hard to say whether these investment products are verifiably doing what they say they would do, and we don't want it to be infinite.

So we're still kind of figuring out do we box it differently but, you know, this is where we came out with our preliminary, potential recommendations.

MR. BERNARD: Michelle, I wonder -- this is me jumping in as a committee member, not as chair, and I think this is a great discussion. I'm fairly close to the work but some of what I'm about to say may already -- you all may have already worked on.

But it seems to me as I hear this discussion part of what might be helpful is for the committee working with Christian and team to get -- to sort of encapsulate sort of the technical guidance on what the current materiality standards are and how they work, and maybe identify a couple of use cases in the context of E, S and/or G where we tease out, you know, here is the nuance of what we're talking about here and how we think that the current materiality regime is effective and doesn't need to be changed, and yet there's a lack of consistency in what's coming out of it with respect to these particular issues that it might help to sort of tease up in greater detail and not, and to your point, not ad nauseum, but to pick two or three use cases so that we -- when we ultimately make recommendations to the SEC the intention of those recommendations is clear.

Obviously, the SEC will have to do their own work and decide where they go with it. But -- because it does seem like there's some nuance here that we need them to do their part.

MS. McCARTHY BECK: That would be very helpful. That's a very good idea. Neesha.

MS. HATHI: Yes, thank you, Michelle and to the committee for the great work.

I was curious, one of the things you mentioned was, you know, it seems like there's -- a lot of the dialogue is around the burden put on the issuers and I'm curious if you all have thought about -- I think you said that one of your next steps is to get feedback from issuers. I'm curious about what's the approach that you're planning to take to gather that feedback and kind of -- because I think what I'm hearing is industry specific and I'm -- how will you get, gather that feedback? Do you plan to go to the different parts of the industry, different sizes of issuers? How -- how would you collect the type of feedback that would help inform how we would move forward and understand the impact and burdens that this could put on the issuers?

MR. PTAK: Sure. So we've gotten some suggestions for bodies, groups that represent a cross section of issuers that maybe cover different industry verticals or sort of other issuer demographics, if you will, to ensure that we, we get a representative picture of what some of those constructive concerns amongst issuers would be and how those can vary from industry to industry.

We've also gotten some additional suggestions, which have been helpful for particular industry groups in areas where perhaps some of the E, S and G issues are
more pronounced or the subject to greater disagreement I suppose you would say, and so they too are an area that we look forward to having a dialogue with just to make sure that we're forming a complete picture of what those different costs and benefits are from the standpoint of all the different stakeholder groups that we want to be mindful of as we're making our final set of recommendations.

MS. MCCARTHY BECK: Any other questions? Were there any other hands raised?

MR. BERNARD: All right, with that so you're thinking we're done here, Michelle?

MS. MCCARTHY BECK: Yeah, we might be done a little bit early unless somebody has a last burning question.

MR. BERNARD: Any other questions? This was a great discussion. So it looks like we can call this. So I think what we'll do is our 1:00 session on diversity and inclusion we have some external speakers, and I don't think we should presume that we can change their schedule at this point. It's -- we're only 15 minutes early, so what I'm going to suggest is we take a little extra time for lunch. It's now 11:45.

We'll have an administrative session, and I think we'll still just have that begin at 12:15. What I'm going to ask is for committee members as we turn to the lunch hour and put up the holding screen for sec.gov just stay on for a couple of minutes so the tech team can make sure everybody knows how to get to the breakout room for that discussion later.

But let's assume schedule-wise you've got a little time to get away from your screen, grab something to eat. I'll come to you, Dalia, in one second. And then we can start at 12:15 with the administrative session.

Dalia, it looked like you wanted to jump in with something.

MS. BLASS: I was just wondering whether we could since we ended this session early, whether we could actually shift to the admin session so we could finish that and then folks can take a lunchbreak without being interrupted.

MR. BERMAN: Oh, actually that sounds like a great idea. So why don't we just stay on. We'll do the administrative session, get that out of the way, and then give everybody a solid lunchbreak. I think that's a great idea.

So with that, Nick, if you would take us to lunch break. And for those on sec.gov we'll be back at 1:00 sharp.

there's been so much good happening.

I know that Ed already gave a very good synopsis, but I'll just go back again for those who are tuning in for the first time. We've had a very methodical approach to our committee, and I thank my committee members or subcommittee members, and that was to start with data. We wanted to get the emotion out of the issue and really just look at the data.

We called Robert Raven (inaudible), and of course the Knights Foundation that it really looked at a lot of data. And the data was quite interesting and revealing, primarily the underrepresentation of minority owned primarily Hispanic and African American money managers as it relates to the total assets they have under management, as well as debunking some of the myths about performance, where in fact the studies have shown that they perform just as well if not better than their non-minority peers. And then we had the industry leaders talk about some of the things they have faced.

And then we went to our second panel and there we had some of the allocators, both from the pension fund side as well as from the consultant side, and we did it from an eye of best practices, and we even had the Treasurer of the State of Illinois who said some very powerful things.
So this is kind of the last in our series of sort of intro meetings and then the committee, the subcommittee can get to work on refining what are the best recommendations to bring forward to the AMAC as a whole, and then hopefully to the SEC Commissioners.

And so with that in mind we have three industry leaders and we have plenty of time to my fellow AMAC committee members, so time is not an issue here. I don't think we'll use all the time, but please know that we're going to go ahead and have all three speakers speak one after another. I'll introduce them as they speak, and then at the end you will be able to ask them questions directly. I'm here also for questions, but we can also ask them questions directly.

And so our first speaker is Mr. Martin Cabrera. Martin has been around for some time, actually for a couple of decades. I'm not trying to date any of our speakers, but they've been doing this for quite some time. He's been an industry leader, serving on multiple boards, and is the owner and principal shareholder and partner of the largest Hispanic broker/dealer, and one of the largest minority broker/dealers in the country.

And, you know, we've heard from the NAA, the New American Alliance, well Martin was one of the founders. So that's how much he's been engaged. So Martin, welcome, and the floor is now yours.

MR. CABRERA: Thank you, Gilbert, and I appreciate kind of everyone kind of taking the time to be here today and giving us an opportunity to speak to the committee.

I want to thank Chairman Clayton as well as the other SEC Commissioners and Committee Chair, Ed Bernard, and Committee Member Gilbert Garcia, as well as the other AMAC committee members.

I know this does not happen on its own. This is an extremely important topic and the dialogue for our country is kind of critical to discuss some of these kind of these key issues. I know without the leadership commitment and courage of the select few some of the driving issues would not be taking place. So we're thankful for all of your efforts.

We've had several organizations from around the country over the past few months come to testify before your committee and speak on different issues, but they all revolve around access to capital, and my hope is that the recommendations that I give today that the SEC would be able to follow up and have further discussions and eventually pass an SEC rule that could be implemented for transparency purposes for investors and for the markets.

The issue on access to capital is at the heart of the problem and clearly shows how our financial systems are cracked at the foundation and why you see some of the social unrest kind of taking place around the country. It's the disparity gaps in our country, and specifically the economic disparity gaps that has caused greater divide and frustration.

Minority and women owned money management firms have been denied access to capital from public pension funds, corporate pension funds, endowments and foundations. There are numerous studies from NAIC, The Numeric Alliance, Kenner Nast (phonetic) and others that show how minority firms when given the opportunity to command those assets they tend to outperform their peers.

So competition for allocations from pension funds is a best practice and it's what's best for money managers, pension funds, mutual funds, and retail investor, and it's based on the fundamentals of what our country was built upon. We've heard the statistics and specifically in the 2017 Knight Foundation study of how only 1.4 of the $69 trillion pension fund industry is being managed by minority and women owned firms, and of the 1.4 percent is extremely generous and the better estimates kind of are around the Black and Latino firms account for about 1/2 of 1 percent of those assets being managed by those kind of ethnic minorities.

So there are plenty of qualified firms that would like to participate, but through the structural impediments it makes it almost impossible to compete for institutional funds.

So I guess you can put it this way. Every two weeks minority and women employees of municipalities and corporations from around the country are putting a portion of their paychecks into the pension fund system. But what the pension funds are telling minorities is that you're good enough to put your money in for the pension fund systems but you're not good enough to manage those assets.

Those contributions from minorities are being used by money managers to buy stocks of Amazon, Facebook, Google, and other major corporations that are propelling the company and the stock market and bond market. So some of the universities have discussed kind of of that they'll be increasing the diversity in their staff, but I want to be clear that is a small step that's changing, but it's not what is going to change our country.

The members of Congress and the public don't want to be appeased with just the mere participation of
So minority and women owned businesses want an opportunity to compete for the allocations from the pension fund systems that allow them to grow their company and be a part of the American system and the American dream.

This is a paradigm shift that's taking place in our country and it is truly a wake up call to the United States of America. This is the moment -- a movement that shines a light on the economic disparity gaps and addressing the issues of how we can bring solutions to our financial systems as well as to our country.

We've had Martin Luther King, Jr. fight for civil rights and Caesar Chavez and Dolores Huerta fight for worker's rights and equality. This is a modern day civil rights movement that is taking place and some of us refer to it as a financial civil rights movement.

Our pension fund systems criticize and put forward policy restrictions on Iran and Sudanese investments, but they will not put programs that allow minorities to participate in the pension fund system. So firms must be put on a level playing field and be given the opportunity to compete for pension fund business.

During some of those structural changes and providing transparency in disclosure will start to eliminate those barriers to allocation. There are qualified firms that are ready and able to grow their firms, but they need the opportunity to compete in the marketplace. This is not by any means a social program, it is merely leveling the playing field and providing disclosure and transparency that allows firms to compete.

As Gilbert had mentioned the NASDAQ came out this morning with requirements for more disclosures from the publicly traded companies to include a minimum of one woman and one minority on their corporate boards. I'm asking the SEC to provide guidance and requirements. Morningstar recently released a commentary on how gender diversity in corporate boards is good for investors and the Morningstar Fund Board recently called on the SEC to add information on mutual fund exchange traded fund board diversity to aid the retail investors in decision making.

The institutional investors are asking for diversity and the retail investors are asking as well. It's now becoming part of an investor's criteria on investing in publicly traded companies. On the SEC website the mission is to inform investors, enforce federal securities laws, and provide data, and in the spirit the SEC has an important role to play in the discussions regarding inclusion and diversity in the asset management industry, and in particular the Asset Management Advisory Committee is breeding ground for ideas and solutions on how the SEC can be more effective in increasing diversity and inclusion.

With over 25 years of experience in the financial services industry I know the power the SEC has over the firms that it has oversight on and what an impact guidelines coming from the SEC can have on the behavior of firms. Minority firms have been asking for transparency on MWB specifics for years, but now is the era of George Floyd and investors are now the ones knocking, asking for greater transparency.

My recommendations are the following. First, that the SEC should require the disclosure of a diversity and inclusion scorecard or matrix, which scores and composes of fees being paid to diverse professional services firms and money management and requiring EEOC report forms detailing the composition of staff, with insight on senior leadership composition. This diversity and inclusion matrix should be filed quarterly along with company's 10-Q reports, but at a minimum with the corporation's 10-K reports.

The disclosures cite on the fees paid to money managers and other financial services firms, so they can include investment banking, mergers and acquisitions, brokerage services. In addition to the fees being paid to professional services firms a component of the scorecard matrix can be an EEO inspired report that provides insight into the composition of the firm's senior management, managers and employees. It can also include some of the other professional services firms such as IT, legal and marketing. It would allow retail investors and institutional investors to see if the corporation is promoting diverse employees across all areas of the firm and their values and practices in dealing and working with minority owned firms.

The benefit to the public is the transparency set by SEC's oversight will protect the retail investors, and by requiring corporations to be transparent about their V and I numbers. They are fulfilling their objective of oversight for the public, but also accountability to shareholders. If a corporation is not casting a wide net, a wide enough net to include minority and women owned firms then they are leaving out some of the high performing firms that could drive results in performance to shareholders.

Shareholders deserve to know, like, who is
I would like to also share a little bit more about the social and governance components of the S and G parts of the ESG. One of the ways diversity can help the public is by giving investors access to the business opportunities with other minority and women owned firms. Disclosure of the diversity in senior management and the boards will allow investors to determine if the senior management team is implementing best practices in alignment with the governance aspect of ESG.

My second recommendation has to do with the disclosure of professional services fees paid for diversity. This can help mitigate the concentration risk of using only the largest, often white owned firms to receive a disproportionate amount of the business and spreading out the business opportunities with other minority and women owned firms. Disclosure of the diversity in senior management and the boards will allow investors to determine if the senior management team is implementing best practices in alignment with the governance aspect of ESG.

Now I know this would have never been possible if not for working for a minority firm. And again I work for the largest fixed income Hispanic firm managing a little under $17 billion in assets. Ms. Dang was a trustee at pension funds, she's been involved with this issue. Ruby, the floor is yours.

MS. DANG: Thank you, Gilbert. I would first like to start by thanking Chairman Clayton, the SEC Commissioners, as well as Chairman Bernard for giving me the opportunity to speak today about diversity. I would like to also share a little bit more background on myself. I grew up in a predominantly Hispanic neighborhood with parents of immigrants. I attended public schools and graduated from a local college that essentially was a commuter school. And here I am a 25 year veteran in the financial industry.

SEC Rule 206(4)-5, pay to play rule, where it has banned the institutional investors from making federal contributions to campaigns. It's everyone's fundamental right and part of the First Amendment and our freedom of speech to support individuals that are taking up causes that are near and dear to our minority constituency, not just on access to capital but all areas of diversity. For diversity, environmental issues, human rights issues, and several more.

We feel it is our fundamental right for the SEC to repeal this rule and allow firms to participate in American democracy. The unintended consequences of allowing the rule has far outweighed the benefits to the public. It has stymied the minority community on many issues and has prevented our voice from being heard at the federal level. I would ask that you rethink the purpose of the rule and measure the impact of having our voices heard.

The issue on access to capital is a growing trend and the public is asking for disclosure and transparency on diversity and inclusion. The SEC has an opportunity to be proactive as opposed to reactive in making policy changes and implementing rules for publicly traded companies.

Now I know this would have never been possible if not for working for a minority firm. And again I work for the largest fixed income Hispanic firm managing a little under $17 billion in assets. I want to now go and share some of my experiences. Again, I've been in the industry for 25 years and I think you would find it interesting what it was like to be a Hispanic female in the financial industry.

But first what I would like to do is give you a little bit of background on the definition. You know, the definition minority started back in the 1990's and it was meant to give opportunity to underrepresented groups, meaning Hispanics and Blacks. Over time there have been new definitions that popped up and I want to share those with you.

First, they have changed the definition to say that you should have a certain amount of assets to be considered a diverse firm or an emerging firm, and those assets were just randomly picked and there've been in place for about 20 years. They're either $2 billion or $10 billion.

And what happens is the good, diverse firms, minority firms quickly pass these caps because they're performing and then they are -- they are penalized for
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decades. There's been too many boards he's served on to even mention them, whether it's the New York Times, Exelon, and others. He's a great human being, but most importantly he's the only one that's been known to have beat Michael Jordan in a game of one-on-one, and that is a true statement.

So Mr. John Rogers, it's all you.

Mr. ROCERS: Well, thank you, Gilbert. Thanks for mentioning that. I want to thank the Chairman, the SEC staff, you know, Ed and you, Gilbert, for giving us this opportunity today. It's greatly, greatly appreciated.

You know, my name is John Rogers. I'm the chairman and founder of Ariel Investments. We were the first African American owned money management firm when we started in 1983. We're really proud of that.

But I came from a family of entrepreneurs. I was very, very lucky, very, very fortunate. My mom was the first African American woman to graduate from the University of Chicago Law School in 1946. She met my dad there. He was returning from World War II as an original Tuskegee Airman. He's flown over a hundred missions. And when they graduated from the law school they both worked hard to build their own law practices, you know, professional services being something they

thought was an important part of our economy.

But, you know, actually I had multigenerational entrepreneurs in the family. My great-grandfather J.B. Stratford owned the Stratford Hotel in Tulsa, Oklahoma that was firebombed and destroyed during the Tulsa race riot of 99, 99 years ago. He was one of the most successful entrepreneurs in the nation, but the opportunity for our family to create multigenerational wealth was destroyed by the Tulsa race riots.

Also I had a grandfather, C.S. Stratford, who was a pioneering lawyer also and a pioneering civil rights leader. He actually helped argue the Hansberry Case in the Supreme Court to fight against discrimination and restrictive covenants in segregation. He was something that, you know, early on had an opportunity to be in front of the Supreme Court.

I come from a city of entrepreneurs in Chicago, and as we jump ahead there used to be lots of great success in Chicago. We had legendary firms like Johnson Products that created Afro Sheen, and Ultra Sheen, and was listed on the American Stock Exchange, the first African American firm to be listed on an exchange.

We of course had Johnson Publishing, founded by John Johnson who owned Ebony, and Jet magazine, and was the largest black business in the country. But we also had large black banks, insurance companies, large advertising agencies, law firms, et cetera. And almost without exception it's all gone.

You know, we have been going backwards in the last 40 years when it comes to creating economic wealth for minority communities and economic opportunity for minority communities. And I know many, many of you know about the wealth gap, but what many people don't realize is how much the wealth gap has gotten worse over the last 40 years.

My favorite data is from the Federal Reserve of St. Louis where they showed that between 1992 and 2016 college educated whites saw their -- saw their wealth increase 96 percent while college educated blacks saw their wealth decline 10 percent. That's pretty amazing over a roughly 25 year period to have college educated blacks down 10 percent where college educated whites were up 96 percent.

More recently I've had a chance to get to know Kerwin Charles, who is the dean of Yale's business school. He's done an enormous amount of research in this area and he often talks about the fact that relative to White Americans African Americans are worse

off today than our grandparents were, which is a pretty stunning statement from a world class economist like Kerwin.

I know we're here today to talk about asset management and I think that's so important because we know the largest source of wealth, political power, jobs and philanthropy is being created in technology but also in financial and professional services. That's where the real, the real wealth is.

If you look at the 2108 Forbes 400 over 30 percent of those members of the Forbes 400 generated their wealth in financial services or real estate. The top three private equity firms control over 2 million jobs. So the places where we're not included are the areas where the real wealth and power and jobs are being created today.

We know that the financial services industry is well served when you have successful diverse firms, job creators and philanthropists like Meloody Hobson, Eddie Brown, Gilbert and Martin. It's so important for us to be included in these parts of the economy.

As Reverend Jackson often says, you know, baseball became a much better sport when Jackie Robinson started to play, and he was quickly followed by Hank Aaron and Willie Mays, and our own Chicagovan Ernie
Banks. When you have total inclusiveness you're going to have better results. It's going to make for a more competitive economy and a stronger country and a stronger nation.

So people always ask why does this happen and we can't get through this all in a short presentation today but we know that people typically, especially in professional financial services, work with people they know, that they're comfortable with, that look like them, they grew up in the same segregated communities that they did. You know, here in Chicago because we know so much of the wealth is in the Western Suburbs and the North Shore, and when opportunities come and get passed along it's from those folks that again grew up together and lived in the same communities.

The second reason we often think about is the implicit and unconscious biases that are out there in our society. A long time ago I was chairman of the Chicago Park District here in Chicago, and there are nine museums on park land. And I was pushing the nine museums to work with minority owned businesses because that was what Rich Daly and Harold Washington wanted the anchor institutions of our community to do. So we got the museum heads to come up with a symposium where they would bring all of their executives together and meet with minority entrepreneurs here in Chicago land.

So they came up with an invitation for the event and the cover of the invitation had a picture of a man in a hardhat with a shovel and tagline from the event was going to be digging up business. So those museums when they thought about minority businesses they thought about a man in a hardhat shoveling, which we think those are important jobs, but we want to again be included in the parts of the jobs where those wealth -- where the wealth is being created.

And so that was kind of the definition of implicit and unconscious bias, that invitation that the museums had come up with. And that's to say about roughly 30 years later nothing much has really changed. The economic opportunities come in what's called supplier diversity, which is my third issue that's a real problem.

When you finally get a progressive institution that's interested in working with a minority company they do it under this term supplier diversity, which you typically number one includes construction, janitorial services, catering, things like that, which again are important parts of our economy, but as I've said already several times we all know where the wealth, and jobs, and power is today, it's in technology, it's in professional services, it's in financial services. I think it's a modern day Jim Crow if we only get a chance to do supply chain work and not be included in everything.

So the solutions that have been talked about by my colleagues today, and I have to say we are pretty much all on message, which is terrific. You know, I love working with my teammates here on this panel.

And so number one I would agree with the idea that Ruby talked about or the Rooney Rule or the Garcia Rule. I'm excited about that. I think that could happen. If we could get all of our anchor institutions and corporations in America to do that we could make real progress.

Secondly, I would like to get rid of the term supplier diversity and use the term that the University of Chicago uses, business diversity. That implies that you want to be able to include all the aspects of the spend. And the University of Chicago has gone from basically working with zero professional services firms 12 years ago to now over 95 professional services firms, including 15 money manager for their endowment. So this term business diversity we think is kind of a big deal.

The third one I agree with completely with Martin's idea of talking about the transparency, that we want anchor institutions to be able to show how money is being spent in all aspects of their spend. As mentioned earlier I was on the Exelon board for 18 years, and under the leadership of a man named Bill Monhaney (phonetic) and Emmett Bond they created a program where I get -- when I was board member I got to see how every dollar was spent for each category, and that way it allowed us when people saw that the most lucrative parts of the spend with the highest margins people of color were not included.

That gave us an opportunity as directors to aspire management teams to do the right thing and increase that spend in all aspects of Exelon spend, and they've done an extraordinary job with their pension fund and the team that is there has just been absolutely, absolutely fantastic led by Doug Brown.

So transparency is important, and then finally what's been touched on is political empowerment. Around 2018 or so the Wall Street Journal did a story that talked about that in 2000 -- in the year 2000 if you looked at the 25 largest cities in America 9 were run by African Americans. By 2017 it was down to 4.

Now, you know, going from 9 to 4 was a pretty big deal and I understand now things are moving back in
the right direction, we're getting more diversity there
since the last couple of years, but the fact that we've
gone backwards in a time where our country has become
diverse I would agree with my colleagues today that does
have something to do with Rule 206 where the progressive
leaders and diverse leaders are not allowed to
participate in our capitalist democracy.
As I mentioned earlier I grew up with parents,
and grandparents, and great-grandparents who were civil
rights leaders, who fought for justice. They told us it
was important to be fully engaged in our capitalist
democracy. Now for us not to have the opportunity to
fully participate in our capitalist democracy, the only
industry in the nation that's not allowed to include, it
doesn't seem fair and I think it's a direct reason why
we have less elected officials and the wealthier
communities have a chance to get mayors and governors
seats and senatorial seats.
So I think it's really important for us to try
to open up those doors so all of us can fully
participate and get elected progressive mayors that are
going to fight for economic justice in the boardroom.
And my final comment is I'll give you a quote
from Dr. King where he talked about how African
Americans could only be liberated from the crushing
weight of poor education, squalid housing, and economic
strangulation, the only way you could be able to
overcome that is by being integrated with power into
every level of American life. If we are integrated with
power in every part of our American economy it will make
our nation stronger, it will be a more fair and
inclusive economy and country.
So I really appreciate the chance to be here
and look forward to your questions.
MR. GARCIA: Thank you, John. Before we go
into questions let me just say thank you again to all
the speakers and thank you to all the AMAC members for
their patience to hear these things.
I know that when you talk about diversity
sometimes some of the language can be uncomfortable, but it
sometimes could be an uncomfortable topic. But at
the end of the day it's a topic that has to be discussed
openly and respectfully.
If you look at all the speakers we've gone
through in these three sessions there are lots of things
that kind of bind them together, and it really is
interesting how their comments generally all really run.
I will use two phrases because they kind of fall into
two camps in my view. One is do the right thing.
That's simple, do the right thing. And the other is
does it pass the smell test, something as simple as does
it just make sense.
And when you talk about transparency, whether
it's demographic data, whether it's conflicts of
interest, all of those things, it all goes back to do
the right thing. Transparency we all know leads to
better benefits for everybody.
It was very interesting, what Treasurer
Frerichs -- he said the only folks that would
be against transparency are those that their -- the
reason they're against it is either centered on
embarrassment or defeat. Those words have stuck with
me. Those are the only things that people would say we
don't want more transparency because of embarrassment
and deceit.
When you talk about the pay to play rules the
ting thing that comes to my mind is does it pass the smell
test. Are we really eliminating money, if that's the
key in our industry, or the power of money, when in
reality the largest firms probably have even more access
politically, whether it's through their PACs, whether
it's through their lobbyists, or whether it's through
their community outreach.
When you look at smaller firms, which of
course minority firms are overrepresented, we don't
really have those resources and all we're really doing
is creating unfair burdens on the smaller firms for
compliance, so passing the smell test on what we're
trying to achieve.
The other thing that I think is important
about it all is keep in mind that the large firms, and
every now and then we'll read about an infraction, and
sometimes for someone like me the numbers are
staggering. $100 million, $175 million, $1 billion
infractions. And what's amazing is it's almost looked
past as if it doesn't even impact their business model.
When you look at a diverse firm, a minority
owned firm, a Black or Hispanic owned firm, if they have
one blemish, one SEC blemish, one regulatory issue, it's
immediately -- the consulting community puts a sell
recommendation on them and many firms have had to close
their doors.
So I think transparency is key, I think the
does it pass the smell test on the whole pay to play
rules and are we really achieving what we're trying to
do, or would we achieve much more by making consultants
disclose the economic benefit that they get from the
very managers they recommend. Transparency, who can be
against that. Embarrassment and deceit.
And then lastly in many industries you have a
place to go if there's discriminatory behavior, whether it's in the housing, whether it's in employment, but the money management space I know a firm that was talking to one of the largest consultants and the consultant outright said we're never going to put you in the search because you don't have enough white male partners in your firm.

Where does a firm take that? You know, where is that discriminatory behavior investigated and there's penalties for that? There isn't a place and I think that would be something else the SEC should consider. How do I know that happened to the firm? Because that firm is our firm. It happened to me.

So thank you very much, Ed Bernard. I think I'm going to turn it over to you in the spirit of guiding the questions and making sure I can, you know, the names I've already called on. But we do have all the speakers still here, Martin Cabrera, John Rogers, Ruby Munoz Dang, of course I'm here.

So why don't we turn it over to see if, Ed, if any of the Commissioners have got questions and any of the AMAC committee members.

MR. BERNARD: Great. Let me, let me just first thank once again Gilbert for each of these panelists. You've brought us great, great thought leaders, and thank you to Martin, Ruby and John for your very, very thoughtful and substantive comments. We're grateful for that.

And with that rather than exercise the privilege as the Chair I'll look for hands to be raised for anyone with a question or comment. I don't want to ask if I don't see a hand, but I would love to get the group involved. Joe.

MR. SAVAGE: Thanks, Ed. And this question is for Ruby. I appreciate your remarks and I apologize for my ignorance but I was just hoping you could help educate me.

You mentioned these $2 billion and $10 billion caps, which I'm not sure I completely understand so I was hoping you could give me a little more background about what those caps and how they impact your firms.

MS. DANG: Sure. So what it is is every firm has assets that they manage. So again trying to change the set of opportunities from being -- for, you know, not -- for 51 percent or more minority owned what they did is they changed it, the definition from that to how many assets you have under management.

And these assets have been in place for 20 plus years and they've never been looked at again. So some of them are at $2 billion in AUM, assets under management, and others are $10 billion in assets under management.

We are a Hispanic fixed income firm. We are at $17 billion. So we would no longer be able to participate because we have surpassed that threshold and it makes sense because those that are performing should grow. So we are getting -- you know, we are getting penalized for doing what we're supposed to do, which is perform and grow when no one has put any caps on the large guys that are at the trillions.

MR. GARCIA: And again, Joe, just -- so in other words you are now seeing consultants advocating for let's have an emerging manager search in the spirit of trying to cast a broad net for minorities, but then putting these caps that are just artificially low with really no thought behind them to differentiate between products and of course fees, and with no thought behind them on if they're small they're eligible even though they might be white male dominated firms or white male firms period.

And so the whole key is we need to go back to the original intent, which is minority owned, underrepresented Black and Hispanic firms, that should be the focus because they continue to get squeezed out.

John, why don't you --
have multi-trillion dollar money management firms. All of us are rounding errors, you know, and as we all know to be successful in this industry now you have to have world class compliance, world class technology, world class analysts doing the research, supporting your customers.

And so if every time you get close to scale progressive people stop being interested in hiring you it's hard for you to grow your business because of this term emerging. And I've had several times now where I've gone to talk to trustees of major endowments where they said, well, we're looking for the net John Rogers.

You know, we don't want to work with you.

It's just a real problem in the way that people view this day and age and really is a real impediment to why our industry hasn't grown for minority, minority professionals.

MR. CABRERA: I think just to add to that one of the things that it does, because there's so many definitions throughout the country the SEC having their definition kind of clarifies it for all the pension funds, whether they're corporate pension funds, public pension funds, endowments or foundations. And realistically you don't want to put a limit on the number, whether it's $2 billion or $10 billion, because, look, in reality John Rogers isn't going to stop being black, Gilbert Garcia isn't going to stop being Latino, and they're going to grow their firms, and if they're growing their firms they're doing something right. They must have great performance at the end of the day. But that great performance is going to lead to more assets coming to those great performers. So you don't want to limit the growth in some of the minority firms.

So it's not putting the limit or a cap on those kind of minority money managers, but I think it's also the SEC can kind of a public definition kind of nationally to all of those public funds, corporations, and endowments, and foundations.

MR. GARCIA: So Joe, hopefully we answered your question.

MR. SAVAGE: No, you did, and that's very helpful. It helps me understand it a lot better, so thank you.

MR. BERNARD: Michelle, I saw your hand up.

MS. McCARTHY BECK: Yes, I'd like to hear from the panel, I was thinking as John was going through the reason we've gotten to where we've gotten to and how much backward progress has been.

You know, the shift to passive management and
to people who got their first, built big infrastructures and lowered fees, and it seems to me to be also one of the larger elements here. How do you rank that with these other causes of why, you know, the motion seems to be backwards in this area?

MR. GARCIA: John.

MR. ROGERS: It's funny, we just got through two days of Ariel Mutual Fund board meetings and we've talked about the challenges of passive course. Indexing has become as we all know an extraordinarily tough competitor for all of us active managers.

But I still think there's plenty and plenty of opportunities when you look at all the endowments in this country from hospitals, universities and museums, all the corporations that have 401(k) plans that use, you know, traditional mutual funds like we provide, there's more than enough opportunity for us to have a chance to grow our businesses even with the competitive, the competitiveness of the index funds if people would hire minority firms the way they -- in asset management the way they do otherwise.

I joke often with my CEO, Melody Hobson, if we went into catering we'd have 90 percent market share here in Chicago in all the anchor institutions. But when it comes to money management, because of the issues

we talked about earlier, it's really, really tough.

And again so I think there's more than enough opportunity even with the problem that indexing provides for all of us asset managers. The final piece -- you know, Burton Alfeel (phonetic), the (inaudible) who walked on Wall Street, you know, I got to know him when I was at Princeton and I understand exactly why and how efficient the markets are and how important it is to be able to have the indexing option for many participants throughout these, throughout our country.

MR. GARCIA: And Michelle, if I could on the bond side, it's a real clear cut answer there because whether you look at 10 years, 15 years, 20 years, 25 years, the index has consistently, if you just look at the aggregate index, it's either in the third to the bottom decile or the bottom decile. In other words active management is essentially adding value across the board.

What's quite fascinating is fees have compressed in the bond side so greatly when I first got in the bond business on the buy side in 1990 the average bond fee was around 40 something basis points, 40, 45. Now it's in the mid-teens. When you start getting larger sums of money, $1 billion, the difference between active and passive fees is in the 3 or 4 basis points.
It's next to nothing.

So in reality in the bond issue it's quite clear and we've seen that every crisis, where there's no liquidity in many different sectors, and it's the active manager that's there to raise the assets so the participants could pay their bills. It happened during COVID, it happened during Lehman, and as sure I'm sitting here in the next crisis it will be there again.

Mr. Bernard: Chairman Clayton.

Chairman Clayton: Thank you, thank you, Ed, and I want to thank Gilbert Martin, Ruby and John and note that Ruby and Gilbert and I have spent a lot of time talking about this. I'm going to invoke last meeting privilege again and share my views here.

But John used a great term, capitalist democracy. I know of no lasting democracy that doesn't have economic strength and lasting economic strength. That's not, that's not a single top line number, it's a distributed number. You have to have economic strength across your society.

What we know and what we found out quite starkly, or should I say emphasized quite starkly in the last nine months, is that participation in our modern economy requires you to be connected from a communication standpoint and from an economic and finance standpoint. If you don't have a bank account we can't reach you, if you don't have the Internet you can't participate in the labor market and grow.

And what we also know is that diversity, inclusion and opportunity are necessary across organizations to address the gap between those who are connected and those who are not connected. I think those things are all fundamental.

And what we've tried to set in motion here at the Commission is doing that across the financial services industry, in the boardroom but not just in the boardroom. Now importantly at the Commission we have to eat our own cooking in this regard, assess ourselves. We do have internal metrics on whether we're hiring, whether we're promoting, whether people of color are working their way up the chain to positions of leadership. What I particularly, I don't want to say satisfied because I'm not satisfied, but what I'm particularly pleased about this committee is that you're dealing with this issue across the asset management and financial services industry and I think, I think that's the important way to approach it.

To go to transparency, I agree with Gilbert. You know, transparency, if you're afraid of transparency you're hiding something. But our job is to make sure that transparency is not selective or asymmetric, that it's across the board.

So I just ask that you do what you've been doing, which is this topic is not a topic that you do, you know, on a Tuesday in June and you return to it on a Friday in November but it's something that stays present throughout these meetings and that you continue to bring the statistics forward, to bring the ideas, the tangible ideas for improvement forward, and that it happen across the financial services industry. Because the numbers tell the story. We're not doing a good job. We haven't done a good job. There's room for improvement and we should be measuring, I think we should be measuring regularly whether any improvement is being made.

So with that I thank all of you, the panelists, and I'm also here to answer any questions about that or what the SEC is doing.

Mr. Bernard: If I could ask you a question, now that you've thrown out that opportunity, Chairman Clayton, I think one of the challenges for this committee, and why I think your comments were (inaudible), this is an important issue, it's -- I'm not sure why it took so long to become topical, timely, but it seems to be now, and let's hope that momentum continues.

But it's also so vast. I think one of the challenges for the committee is to find the points of intersection between the societal needs and the role and authority of the SEC. How would you counsel us to think about the kinds of -- the way to think about recommendations that we might bring forward that would be meaningful and that the SEC could actually take up and potentially act on?

Chairman Clayton: Ed, it's -- you know, as usual it is a terrific question because our authority is rather circumscribed and one of the things you want to do is you want to take steps in a way that they're assailable. They may push the envelope from a, let me put it this way, they may push the envelope from what is past practice, but they're not -- they don't get bogged down in legal mumbo jumbo.

I believe we have great authority around transparency rooted in materiality and it's my touched on note, it's unassailable if we write a rule that requires the disclosure of demographic information to the extent a board takes into account and believes it's material. Unassailable.

Moving away from that, each step you move away from that you may be moving outside of our authority. You know, the same thing in the asset management space.
And so to be very candid we have to -- we have to use a mix of our legal authority and our bully pulpit to continue to drive this issue forward and do so transparently, honestly, measuring whether we're making progress.

MR. BERNARD: That's a great comment. An example of something that the staff is helping us with now is understanding which investment consultants are registrants of the SEC and the extent to which may be able to directly, you know, prescribe behavior or influence behavior and which are not. I don't think we as a group don't currently have a sufficient understanding of how far your scope reaches. But that's, that's really great insight, so we appreciate that.

CHAIRMAN CLAYTON: Yes, and let me say this. I think one area where we can improve as an agency is ongoing engagement. You know, my view has been if somebody asks me about something I'll tell them what I think our legal authority is and isn't to get it done and where it is. We shouldn't be guessing. You shouldn't go through all the effort to try to come up with some kind of framework and then at the end of the day find out that there's, you know, a legal impediment to that. It has to be an iterative process. You know, the one you raised, you know, selection criteria is certainly something that's within our ambit. Disclosure of selection criteria is something that I feel, and again I'm -- you know, I have an executive role here but I feel from the legal perspective we have a lot of authority around that. People disclose their selection criteria and then they say how did we do against that. That's again within our ambit.

At the other end of the spectrum telling people how you have to select probably beyond our authority or at least bumping up against it. So, you know, that kind of -- that kind of dialogue is important, and I also think it's important that it be approached across the board. If you're only looking at one sector of our financial services ecosystem and not sort of addressing it broadly it's harder to get buy in. So that's, that's my perspective as well.

MR. BERNARD: That's helpful, thank you. Gilbert, at the risk of overusing the Chair I want to ask another question of the group if I may. I think I'll direct it to Martin and John because you both mentioned it in particular. I think we've got an important audience here.

On the pay to play rule could you help us understand how you -- obviously that rule applies to all asset managers. I'm going to ask if there's someone out there that's not muted maybe you need to mute. I'm not sure who it would be. But how do you see pay to play disproportionately impacting minority and women firms, women owned firms?

MR. CABRERA: I think, you know, Ed, it is looking at kind of for money managers kind of supporting at the federal level folks that are actually championing some of these issues. Even this issue, it has been going on for almost 40 years, but you just really started to hear about it kind of probably in the last probably 10 to 15 years. But I think kind of those pay to play issues were pegged to a fact really to stop some of the actual donations being given by the money managers to some of the oversight committee that can make allocations to those money managers. This is something different that we're talking about. We're talking about supporting kind of federal elected officials, whether U.S. Senators, Congressional members, even kind of, you know, at the Presidential level, to voice our opinion and to hear kind of some of these causes, whether it's minority participation at the board level or in money management, and it may be environmental issues, but it's kind of issues that we care about.

So it's actually, it's preventing us from having a voice at the federal level because we're in the money management space. If we're in other areas it wouldn't be the case, but it's really to support our elected officials that are championing different causes, so this prevents kind of folks in the business from doing this.

And John might have another perspective on it as well.

MR. ROGERS: I have a couple thoughts and, you know, it's nuanced, Ed. But I think the first thing I would say is we all know -- if you read Nikole Hannah-Jones' New York Times Magazine piece about the historical transition for African Americans coming to this country from slavery to where we are today and the -- not the opportunity, we have not had the opportunities I suggested earlier to build multi-generational wealth. You know, we don't have people, many people in our families that have ever gotten any kind of inheritance. You know, very few people are living off their dividend checks.

So we don't have the wealth. If we have some
level of success in the financial services industry we don't have the wherewithal to be able to leave our jobs and run for office versus if you look at our current governor, J.B. Pritzker, he obviously comes from a very wealthy family. He was in venture capital. He's our governor. Our prior governor, Bruce Rauner, he was very successful in private equity. Our former Mayor Rahm who, a terrific mayor, he was an investment banker.

So these guys were able to create real wealth in their financial services careers, and obviously Mike Bloomberg in New York, have the wherewithal to step away from their day jobs and run for office. There are very, very, very few minorities who have that kind of access to capital and wealth to be able to leave their businesses in mid-career and run for office.

And then of course if you did you also because of what we talked about earlier, the historical segregation and discrimination in this country, you're not going to have friends and family who can fund your campaigns either. If somehow you decided you were going to go off and try to run and, you know, do real public service and care, not care about losing your business and what have you, you don't again have a family of aunts and uncles, friends, and relatives who can finance your businesses, and people you grew up with who could finance your businesses and went to -- you know, had more privilege, and more opportunity, and more multi-generational wealth.

So I think that is probably the most important key answer of why this has been so impactful. And then this, you know, the other part of this that's so important is that, you know, as I said earlier the issues that we face in our community around civil rights and economic justice it will be so great when you can get people elected who believe that economic justice is important. If the people who are going to -- who can afford to run for office are people who don't have this as their number one priority it's very, very difficult.

So the last thing I'll say, a generation ago when Harold Washington got mayor -- got to be the Mayor of Chicago, all those successful entrepreneurs that I talked about earlier, the John Johnsons, the George Johnsons, the Ed Gardiner from Soft Sheen, they created the -- they had the wealth at the time to support Harold Washington get elected. Now as the economy has evolved, the wealth is created in professional and financial services, so the few of us that have some success we don't have the opportunity to help get a Harold Washington elected in this current environment we're in today.

So those would be the two major reasons why I think this has really been very, very impactful to our society, and of course as I said earlier it's just heartbreaking when you feel like you can't be engaged in your capitalist democracy in full, in a full and fulsome way.

MS. DANG: Mr. Chairman, could I just add to that? What I was going to talk about is a little different definition when we say pay to play related to the consultant community.

So the consultant community, some of them, the larger ones, are getting revenue outside of consulting whether it's through conferences, and we see them all the time. In order to participate you have to pay these incredible amounts to participate in these conferences to get in front of folks from the consulting community.

Two, many of them sell services to money managers. So when we say to pay to play we're saying that these consultants should be transparent for the revenue they're receiving from the same managers that they are recommending to allocators.

So again the term pay to play is a little different on the consultant side and I just wanted to make sure that I was clear with that.

MR. BERNARD: Yes, that's great. Thank you to all of you for clarifying that. I'm going to step back because I think I've asked too many questions and made too many comments.

Any other questions or comments from others?

MR. ROGERS: Maybe just one quick comment.

MR. BERNARD: Okay, John, go ahead.

MR. ROGERS: Yes, just on a note of what I -- years and years ago, when Arthur Levitt was the chair, I got a chance to participate in a similar kind of conversation with leaders around financial literacy. It goes to the Chairman's perspective about what sort of a bully pulpit can do to make a difference.

After Arthur made that presentation I got a chance to engage with a lot of conversations around financial literacy. It inspired us to start the Ariel Community Academy Public School, and Amie Duncan was a part of starting that school, and then we created a financial literacy curriculum for that school as you know, Ed.

I just wanted to say sometimes spending time like this together and talking about these important issues it can make change. So our school now is 25 years old. We've been teaching financial literacy for about 22, 23 years, and it was all inspired by a meeting like this with the Chairman of the SEC and his important
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<td>colleagues and staff.</td>
<td>because I do agree that transparency is important, but</td>
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<td>MR. BERNARD: Well, that's a great reminder of</td>
<td>the information has to be mandatory. You have to</td>
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<td>the good things that can happen from this.</td>
<td>mandate that they provide you the info. Because if it's</td>
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<td>I think I saw another hand go up. Scot, was</td>
<td>on a voluntary basis you're not going to get any data</td>
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<td>it you?</td>
<td>and the data will set you free. It's very important.</td>
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<td>MR. DRAEGER: Yes, Ed, and I think Renee had</td>
<td>MR. BERNARD: Great, thank you. Scot, you</td>
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<td>her hand up as well. I just wanted to acknowledge that.</td>
<td>want to pick up?</td>
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<td>Renee, why don't you go ahead and then I'll</td>
<td>MR. DRAEGER: Sure. First once again thank</td>
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<td>jump in.</td>
<td>you to Gilbert who inspires us all every time we get</td>
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<td>MR. BERNARD: Go for it.</td>
<td>together, and John and Martin and Ruby, just terrific.</td>
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<td>MS. LaROCHE-MORRIS: Sure. Hi, all. Thank</td>
<td>So an observation and then two questions if Ed</td>
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<td>you for the conversation.</td>
<td>will indulge me.</td>
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<td>When you guys think about bias, barriers and</td>
<td>But, one, picking up on the Chairman's</td>
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<td>lack of industry accountability, you know, with where we</td>
<td>comments, which were, I think leave us a lot of room for</td>
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<td>stand today where is the biggest obstacle when we think</td>
<td>good work, you know, I think sunlight being the best</td>
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<td>of where to go next in terms of tackling those three</td>
<td>disinfectant, you know, the focus on asset allocation, I</td>
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<td>things? Where do you think is the best place to really</td>
<td>think there's some things that we can do in the way of</td>
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<td>focus initially to make progress based on where we stand</td>
<td>asking the Commission or recommending to the Commission</td>
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<td>right now?</td>
<td>that they gather data in registrant filings about</td>
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<td>MR. CABRERA: Renee, I would say that one of</td>
<td>allocation criteria, selection criteria, the actual data</td>
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<td>the areas, and what I brought up, is even just</td>
<td>on minority and women owned businesses receiving</td>
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<td>disclosure, where you're not forcing kind of</td>
<td>allocations, and then employment data. So I think</td>
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<td>corporations to make allocations in this space on money</td>
<td>there's clearly a window of opportunity there.</td>
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<td>management, but it really just allows kind of for</td>
<td>My bigger question I guess is one I asked of</td>
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<td>disclosure and transparency. So those investors,</td>
<td>Robert Raven and some of the prior speakers, for John,</td>
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<td>whether they're retail investors, institutional</td>
<td>and Ruby, and Martin, is a lot of the focus has been on</td>
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<td>investors, mutual funds, they can look at the matrix and</td>
<td>institutional markets, so 13,500 or so SEC registered</td>
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<td>the information and determine for themselves whether</td>
<td>advisors, but only about 1,500 really focus on the</td>
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<td>they want to invest in that company or not.</td>
<td>institutional market.</td>
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<td>So I think that would actually allow kind of</td>
<td>So if we look at all the organizations that</td>
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<td>investors and the SEC to make some inroads just on the</td>
<td>the SEC is regulating it's -- the typical firm is one</td>
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<td>disclosure side and providing some insight for those</td>
<td>that is serving individual retail investors, a lot of</td>
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<td>companies and their best practices if they have it, or</td>
<td>individual stocks and bonds, some funds. I am here to</td>
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<td>if not, if they don't have it as well.</td>
<td>ask how do we change conduct, biases, hearts and minds</td>
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<td>MR. ROGERS: And I would just echo Martin's</td>
<td>in that whole other segment of our industry outside of</td>
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<td>perspective. I think that transparency is the number</td>
<td>the institutional market? I would be so grateful for</td>
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<td>one thing, because I think when people really see the</td>
<td>any advice you have on that.</td>
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<td>data and see that maybe they spend 50 percent of their</td>
<td>MR. CABRERA: I think one way to start the</td>
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<td>minority spend with construction, and catering firms,</td>
<td>change, you can't kind of force investors to change</td>
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<td>and those important businesses and have zero of their</td>
<td>their characteristics or their criteria, but it is some</td>
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<td>spend with investment bankers, or money managers, or</td>
<td>of the disclosures so that even for some of those retail</td>
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<td>mutual fund providers and the like, people of goodwill</td>
<td>investors and the high net worth investors, they are</td>
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<td>will see that that's unfair, and start to do the right</td>
<td>starting to look at on their 401(k) platforms, the</td>
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<td>things, and then that data can be utilized by senior</td>
<td>403(d) platforms, they haven't been including minority</td>
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<td>management and the board of directors to move in the</td>
<td>firms. They've maybe included a select few, but they're</td>
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<td>right direction to get equal opportunity in all aspects</td>
<td>starting to open up kind of to see how they can kind of</td>
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<td>of the economy for a diverse community.</td>
<td>help solve those issues, whether it's a Morgan Stanley</td>
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<td>So Martin's perspective of transparency I</td>
<td>or any of the other institutions that are looking to see</td>
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<td>think is job one.</td>
<td>how do they become more inclusive for their registered</td>
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<td>MS. DANG: And can I just add to that, too,</td>
<td>reps that are out there but allowing kind of the retail</td>
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investors, the inside section, how those corporations are performing.

So I chair the endowment for St. Ignatius College Prep in Chicago and we have certain policies that we have to abide by. It's almost kind of providing some of that insight and guidelines from the SEC to the public for some of those corporations.

We're the first Catholic institution in the country to have an emerging manager program. But it set off an inquiry, it caused a lot of inquiries from some of the other Catholic institutions, universities, kind of Catholic charities around the country of what we're doing, how do we do it, how do we implement this.

So I think some of that insight and some of the disclosure allowed some of those retail investors, they are the ones, and Robin Hood as well, those younger investors are asking what do those corporations, how do they appear to be doing with diversity and inclusion. They're asking those questions on their own.

So if the SEC could put a matrix for every corporation to disclose that information it makes it much easier for investors to take a snapshot and be transparent of what those corporations are doing and how they are acting as far as carrying out their policies in professional services, as well as on their board, and even on their kind of senior management. That's part of the solution too.

MR. ROGERS: Sorry, Martin. I would just add a slightly different answer to that too is that I do think that many financial advisors work for very large financial institutions, you know, large insurance companies, large banks, large investment banks. Sometimes the terminology matters, and so many well meaning people talk about access to capital, and so what that means to a lot of these financial institutions is to support CDFIs, to give loans to really small businesses, which is important, and that's great, but then it gets them off the hook to do business with minority owned companies.

We know these financial institutions, they have their own pension plans, their own 401(k) plan, and as Gilbert suggests platforms for their wealth advisors that don't use minority firms.

So I always tell people we need access to customers as much as we need access to capital. I serve on the board of McDonalds. It's not a coincidence that five of the top twenty black owned businesses in this country are McDonalds suppliers. Once McDonalds agreed to buy sausages from this company and ice cream syrups from Braun and Richardson, those companies had no trouble getting capital from banks to build or grow their businesses because they had an important customer.

I talk to Ed a lot about this. You know, he understood and talked about it at T. Rowe Price, how important bringing in customers is and continues to be. I know that we wouldn't have made it through those first years of 1983, 1984 if Howard University hadn't asked us to manage part of their endowment and the City of Chicago gave us $1 million out of their pension plan.

Access to customers is at least as important as access to capital, and again it gives these financial institutions, they get off the hook by giving them micro loans and feel no pressure to spend any of their or make any of their economic decisions to work with minority owned businesses in the parts of the economy again where the wealth is created today.

MR. DANG: And I just want to share one thing because I do think that the disclosure is definitely the way to go. I can only speak from the experience I have here at Garcia Hamilton, but there is change in the air.

The majority of our assets are institutional, but it's been interesting this year recently I've had several folks reach out to us wanting to see what types of platforms we're on because there is interest on the retail side.

So I think this is timely, and as my colleagues just mentioned the best way to educate is to make sure to have all that transparency and the disclosure.

MR. BERNARD: Now I would just echo, I think, I think John's insight on access to customers as well as access to capital is a really important one.

In my mind in this context it leads us back to a point we discussed at some length, which is consultants and transparency about whom they recommend an so forth because these firms aren't asking for handouts, they're asking to be allowed to grow their business.

And to John's point, if they demonstrate that they can attract clients they'll probably have a lot less trouble accessing capital. The flip side is if those who provide the capital sort of provide it and feel like they've ticked a box, we've actually sort of short circuited the progress in some ways.

MR. DRAEGER: Yes, Ed, if you'll indulge me, I just had one kind of detailed question as a follow on the pay to play discussion that you had.

MR. BERNARD: Okay.

MR. DRAEGER: John and Martin, you know, you had both mentioned it and I just want to share a...
perspective. So you -- to help you sharpen your
argument on that I guess and, you know, 2, 6, 4, 5 and
putting my kind of nerdy former SEC general counsel
office hat on.

You know, that's a pretty sound policy. You
know, I guess the way it's viewed by most of the
industry is if you've given a contribution to someone
who is going to then be in a position of authority to be
able to make a decision to allocate assets to you in the
next two years, then you pretty much can't prospect that
person for two years. I mean, that's the way it's I
guess counseled.

And so I think that would be a pretty scary
ting for the Commission to repeal. So I think it's
just important for you to have an appreciable
replacement for how to prevent and attack that type of
quid pro quo conflict of interest.

MR. BERNARD: It looks like we may have a
comment from the Chairman.

CHAIRMAN CLAYTON: No, I think Scot -- well,
Scot makes a really good point. I think there are two
really good points that we need to deal with. Scot's
point is very good.

You know, were there quid pro quos, were there
appearance of quid pro quos. You know, I make a

MR. BERNARD: That's very helpful insight.

donation, I get a nice allocation, okay. We dealt with
that with the rule.

The issue that's raised by John, Gilbert,
Ruby, others is one that there are a number of other
industries that deal with state and local governments
that are not subject to such a rule.

So have we created an asymmetry in treatment,
and in particular an asymmetry in treatment that because
minorities are more likely to succeed in the financial
industry than they are in for example some other
industry that has economic ties to state and local
government. Have we not only created an asymmetry but
have we created an asymmetry that has a disproportionate
effect.

It's a good question. It's one we ought to be
asking. So how do we deal with that as a pragmatic
matter. I do think that issue should be one the table
because we are a participatory democracy.

So I say -- hey, Gilbert did I get that right?

MR. GARCIA: You got it right, boss.

Well, if could mention, Scot, one thing. This
is Gilbert again. You know, I just wonder if it's just
outdated as well. I mean, it's one thing in 1993 or '04
when things first started. The cost of campaigns now
are staggering and is really $500, $1,000 contributions,

MR. CABRERA: Chairman Clayton and Scot to
your, both of your points, I think it's something that's
extremely important, and there probably is some middle
ground, and it's through more discussion and, you know,
trying to look at I think for kind of what we're saying
is that we're not making donations or we're not looking
to make donations to get allocations. We're looking to
make donations to find the right leaders for our country
and that are going to care about the well-being of the
overall kind of country as well.

But, you know, how do we do that in a way that
is not going to jeopardize kind of anyone giving to
someone who might oversee a potential allocator for
pension fund assets, but in a way that allows us to kind
of donate to individuals that are like minded and want
the best for our country. And I think there's some
middle ground to be found there.

MR. BERNARD: Is there any other comments for
Gilbert and the team or our speakers?

And Gilbert, it turned out we had such a rich
discussion we did in fact fill the hour-and-a-half,
which I think is terrific.

Then with that if I may -- I'm going to
suggest we just take a ten minute break and come back at
2:40 and we'll do our lightening round and wrap up if
that's good.
And let me just again thank Martin, Ruby and John. It was really a very, very thoughtful session and we thank you for taking time and sharing, and taking time to prepare your thoughts and then share them with us today, so thank you very much.

MR. CABRERA: Well, thank you. This was absolutely terrific. We really appreciate this opportunity.

MS. DANG: Thank you so much everyone. So appreciated.

MR. BERNARD: Right.

MR. GILBERT: And the committee members.

MR. BERNARD: And folks on sec.gov, we will start again at 2:40.

(A brief recess was taken.)

MR. BERNARD: Okay, let's open it up, Nick.

MR. BAINÉ: Okay, and we --

MR. BERNARD: Okay, welcome back to those on sec.gov and to the committee.

Well, I guess I'll have closing remarks in a few minutes, so I'll hold back on that. I think it's been a very rich day.

As has become our practice, and we've found this very helpful, just to do a lightening round. It's literally one minute each. This was not meant to be extended, but just to share one or two things you heard today that struck you.

It's entirely fine if what struck is you similar to what folks ahead of you said, so don't feel like you have to be different. The idea is to sort of get some of the themes of reactions. So I'm going to work from the participant list. I've been going from top to bottom, bottom to top. I think I'm at bottom to top this time, so what that means -- and by the way the participant list if you've noticed is alphabetical by first name. So if you could figure that out.

I've got a list here, so Susan McGee you're up first.

MS. MCGEE: All right. Thank you so much to the subcommittees who reported in today. I thought it was very, very good content and discussion.

I think what struck me the most, well two issues. On the ESG panel to me the most critical point is disclosure because there is so much greenwashing going on today.

I think Dalia had made comment at a previous meeting that people need to say what they're going to do and do what they say. So I think that the focus on disclosure is the most critical point there as opposed to benchmarking. I think people will benchmark against all the other indices that are out there, at least for now. But I do appreciate that the subcommittee referred to the ICR report, because I think that report is excellent.

And then the other issue, and I'm struggling with this one, is on the diversity and inclusion. It's such a critical issue. To me that one is more of a societal issue with the unconscious bias. I'm not quite sure what a financial regulator can do apart from disclosure.

So that one I'm -- I appreciate the comments today because it gives me more food for thought.

MR. BERNARD: Great, thanks.

Scot Draeger, you're up next.

MR. DRAEGER: Yes, thank you, Ed. I just want to echo my gratitude to all the subcommittee members and the panelists.

First starting with the access, retail access to private investments, I thought that Joe's concept extended, but just to share one or two things you heard.

I think what the Commission is hearing is that people need to say what they're going to do in the circumstance that the Commission moves forward with that, you know, addressing each of those principles that Joe laid out, you know, would be effective.

And then on ESG and diversity, I feel like what we were hearing all around thematically was the evolution of the concept of materiality and not so much an evolution that requires the change in the strict definition of materiality, but the interpretive meaning encompassed by it.

I mean, I think since 99 or SAB 99, Staff Accounting Bulletin 99, it's been pretty commonly accepted by the SEC and issuers in the asset management community that the materiality concept captures not just quantitative risks and measurements but qualitative facts. The definition, somebody asked about, was it still -- you know, is it a fact that it creates a substantial likelihood that a reasonable person would find that fact important.

I think what the Commission is hearing is that there are -- there are things in the environmental, social and governance universe that are considered material, even if they don't represent quantitative risks, and how to capture a disclosure regime that balances the ability to not overburden people with...
lengthy disclosures but to reconcile it with those
common sense goals.

So if somebody picks up, you know, a fund that
is labeled as green but it has five holdings on the
list, list of, you know, worst environmental stewardship
even, then those things can't be reconciled.

So I think that whatever we do, you know, has
to kind of come back to the evolution of that concept of
what is material to investors in this day and age.

Thank you, Ed.

MR. BERNARD: Great, thanks.

Ryan Ludt. Is he still there or did we lose
him?

Keep going. Russ Wermers.

MR. WERMERS: All right, thank, Ed. I'm
pretty much bottom of the barrel whether you go with
first name or last name. I'm just bottom of the barrel.

So anyhow, I enjoyed it greatly. The panels
were just terrific and I think in fact today was my
favorite day of all with private investments, ESG and
diversity. I thought the topics were superb, the panels
were superb.

I'll just offer one bit of scientific evidence
for Gilbert, for the D&I panel, which is Denis Sosyura
at Arizona State University's Department of Finance has
a paper that shows that mutual fund managers --
empirically shows that mutual fund managers who had poor
parents, who had unwealthy parents, performed better
than other mutual fund managers.

So I'm sorry if I mentioned this to you
before, but I think this is something that you can, you
can cite when you cite with authority when you say --
when you and your colleagues say that those who face
restrictions, barriers are likely to do better once they
break through.

I'll stop with that, Ed.

MR. BERNARD: That's a very interesting
insight indeed. I'm going to look forward to reading
that paper.

Renee, our newest member. I hope you enjoyed
your first meeting.

MS. LaROCHE-MORRIS: I did enjoy my first
meeting. Thank you, Ed.

I think all three topics were extremely
timely. Providing access to private investment I think
is really critical. So much, you know, appreciation and
so many returns are sitting in that private placement
and we need to get more access to it for retail
investors. So how do we do that in a way that's safe but
not too restrictive I think is really important. So I

think that was a great panel.

ESG, ESG is going to grow and grow and grow
and become more important to issuers, to asset managers,
and to investors. So it's critical that we are
thoughtful, that we get it right. There will be more
scrutiny from regulators and clients around the topic.

So it's very important for us to be focused and
thoughtful, and I think the subcommittee did a great job
pulling together disparate opinions, and it sounds like
there's more to come there.

On the diversity and inclusion front, I
actually spend quite a bit of time on this at Bank of
New York. So I think it's really important that we,
one, debunk the myth about, you know, minority owned,
you know, firms, right. Some of what you hear about
them just probably isn't actually true, and so do we
help that.

And then, you know, how do we move to action,
and to the conversation we had with Chairman Clayton,
what's within the SEC's power to actually move to action
for diversity and inclusion and, you know, breaking down
the barriers, addressing the bias, and creating the
transparency is clearly required to move forward with
progress.

Those are my observations for the day.

MR. SUBRAMANIAM: Great, thanks.

Rama.

MR. SUBRAMANIAM: Thanks, Ed.

Especially I want to thank John Rogers. I
loved his story of, you know, his life and the life of
his parents and grandparents. If he ever writes a book
I'm reading it.

I think on the diversity and inclusion, I
think one thing that is slightly -- I don't know if it's
confused or whether it's actually investors that get
confused is confusing emerging, the emerging manager
bucket with the minority bucket, right. They kind of
put them in the same bucket.

And you can -- and there is an argument for
also regardless of minority, women owned, or disabled
veteran owned, which all I think fall into the minority
bucket, an argument for having an allocation to emerging
managers, right, to help newer managers.

But it seems that as soon as you fall out of
that bucket, you know, I guess what -- the observation
and a question is do they just kind of play with
everybody else and then there's a kind of different
disadvantage at that point. So there seems to be this
in between place that there's a disadvantage.

So I don't know whether it's just a lumping of
emerging managers with minority managers that is part of the problem. But, you know, it was very interesting to hear from all of the minority managers and their perspectives, especially as you start to get some size.

And I definitely agree that there's a difference in managing 5 billion of fixed income assets versus 5 billion in, you know, a multi-strategy hedge fund that charges (inaudible) earnings. But some of those (inaudible) measures are also not appropriate.

On the ESG side, you know, I always come away from it thinking there's just so much here. It's like it is really three completely different things and how do you capture it all. I guess materiality is probably a good yardstick or, you know, north star to anchor ourselves to and, you know, it seems to be sort of coming together as we progress down the road of specific recommendations.

That's a lot of work that's being done and very appreciative of Michelle and her team for what they're doing there.

MR. BERNARD: Great, thanks.

Ryan, I see -- I skipped over your name. I see you're back, if you've got any thoughts for us.

MR. LUDT: Yes, thank you, Ed. Sorry, I got pulled away there for a second, so hopefully I'm not repetitive as to what you've heard already.

repeating too much of what has been said. As I think about kind of the three sessions that we had today certainly again great input and great conversation around the private markets conversation and the ESG conversation.

I think I'll echo some of what I heard during the D&I discussion and just the idea of transparency, you know, what -- why you wouldn't want that I have no idea, so I think anything we can do from a transparency perspective is certainly good.

Really interesting again to hear the panelists. And I'll go back to what Chairman Clayton said about kind of the idea of, you know, this foundation of lasting economic strength and, you know, really reflecting on what that's looked like throughout the history of what we've done as a country and certainly what we've seen in the last few months. I think it's really important to stay focused on those topics. Thank you.

MR. BERNARD: Great, thanks.

Paul.

MR. GREFF: Thanks, Ed. All three committees were great today as usual. You know, I'll call several, what you guys were getting to close making actual recommendations. You know, I think it's important that it appears that the SEC, you know, requiring disclosure and transparency to be -- to have the greatest impact.

You know, both the ESG and diversity and -- you know, one thought on the diversity and inclusion is, you know, that didn't get much discussion but I question how many public plans, endowments, foundations, really hide behind their policies to maintain their bias.

And I don't know to what extent the SEC can ride the bully pulpit or, you know, make some type of ruling, but to help peel away those layers where I think a lot of plans hide behind, or excuses for not making things happen, and doing the right thing.

So, you know, I look forward to maybe having some discussions in the subcommittee on the side before the next meeting.

MR. BERNARD: Thanks.

So Neesha let me know she was having -- the system was kicking her out. Neesha, are you with us now or -- I can see you, I don't know if you can hear us.

MS. HATHI: I missed Paul, but I think I'm -- can you hear me now?

MR. BERNARD: Yes.

MR. HATHI: All right. I'm hearing like every third person I think, so unfortunately this may be --

But first of all I agree with the sentiments offered (inaudible) again was just excellent. You know, one of the things that occurs to me as we go through topics often is that we talk a lot about disclosure, and maybe because I spend time thinking about how we make disclosures simple and understandable for investors. I often worry that this volume of disclosures that we talk about can be overwhelming and difficult for (inaudible). And I don't even read things, whether it's about ESG or, you know, private investments and finding the guardrails, how do you do these things in a way that's understandable. So it's just a theme I think a lot about as we go through these various topics.

But with regard to diversity, in some ways I think like (inaudible) because I think what I heard and what I think I've heard in multiple sessions, and what I think I believe myself is just that the data is our first step and there are ways to just make collecting that data more consistent across the industry.

So, you know, while (inaudible) make some progress, not necessarily cut standards just to make progress like for (inaudible) had to. So I definitely agree with that team that I think (inaudible).

MR. BERNARD: Actually, we're losing you. So we'll call it there.
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<td>1. Mike Durbin.</td>
<td>beyond, you know, the AMAC, just, you know, the</td>
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<td>2. Okay, great, thanks.</td>
<td>subcommittee or we all may want to draw upon if we think</td>
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<td>3. MS. HATHI: I'm not sure if you can hear me,</td>
<td>that that sequence is really important to solving this.</td>
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<td>4. but I'll try one more time.</td>
<td>But well done overall. Thank you.</td>
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<td>5. MR. BERNARD: The last ten seconds, Neesha.</td>
<td>6. MR. BERNARD: That's a great question and I</td>
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<td>6. MS. HATHI: And I'm (inaudible) the last thing</td>
<td>told Michelle I'm making a note there so --</td>
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<td>7. I'll just say on the private investing that the other</td>
<td>8. In fact, Michelle, you're up next.</td>
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<td>8. thing, I think it was Dalia who made this comment around</td>
<td>9. MS. MCCARTHY BECK: Okay, terrific. Thank you.</td>
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<td>9. looking at existing framework and existing models on how</td>
<td>10. So, you know, echoing I really enjoyed all</td>
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<td>10. we might be able to create some opportunities for</td>
<td>11. three panels. I found it a really rich discussion</td>
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<td>11. alternative (inaudible). I think it's a really</td>
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<td>12. interesting and potentially a nice way to step into the</td>
<td>13. With the ESG panel, I really appreciated the,</td>
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<td>13. opportunity for a more mass retail market.</td>
<td>14. you know, just with that point of having potential</td>
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<td>14. MR. BERNARD: Mike.</td>
<td>15. recommendations. It really solicits the, you know, real</td>
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<td>15. MR. DURBIN: Yes, thank you. Neesha, I'm glad</td>
<td>16. -- really great feedback that we can take onboard and</td>
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<td>16. you came back, so I'm going start right where you left</td>
<td>17. figure out what the final looks like.</td>
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<td>17. off on the private investments discussion first and</td>
<td>18. Because the issues raised were incredibly</td>
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<td>18. foremost and take them each in order.</td>
<td>19. important issues and it's -- we've gotten out of vague</td>
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<td>19. I thought it was a great discussion. I really</td>
<td>20. generalities and now we're pointing towards a few more</td>
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<td>20. like, Scott Draeger, you flagged it also, called it</td>
<td>21. sharper things and that's when it comes into greater</td>
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<td>21. guardrail. So I love the design principles sort of</td>
<td>22. focus. So I appreciate all the feedback from the</td>
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<td>22. basis, though, that you laid out there. I think there's</td>
<td>23. committee, from the Commissioners, and from Dalia Blass</td>
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<td>23. a lot of leverage there. I'll come back to that in D&amp;I</td>
<td>24. as well.</td>
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<td>24. also.</td>
<td>25. With the private investments the direction</td>
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<td>25. But, Neesha, I agree, I think whether Chair</td>
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<td>1. Clayton or Dalia, your comments or questions,</td>
<td>1. that was being set forth on what kind of vehicles would</td>
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<td>2. recognizing they're yours alone, I think that the</td>
<td>2. work, I really appreciate seeing that work developed.</td>
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<td>3. Commission exposed, you know, some interesting pathways</td>
<td>3. It's been something that's been discussed in a few</td>
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<td>4. here for us to, you know, pick up on in the private</td>
<td>4. industry groups this year, especially post the COVID</td>
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<td>5. investment discussion.</td>
<td>5. market gyrations that took place.</td>
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<td>6. If I could get to D&amp;I, it's such a vast and</td>
<td>6. Is there room for another vehicle, one that</td>
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<td>7. critical topic with an appropriate sense of urgency. I</td>
<td>7. doesn't expect daily liquidity, or are closed end funds,</td>
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<td>8. encourage us to surface design principles, you know,</td>
<td>8. you know, a vehicle that also produces that sort of an</td>
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<td>9. around where can we, you know, impact and as quickly as</td>
<td>9. impact? But the idea of something where -- the problem</td>
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<td>10. possible to begin the, you know, sort of narrow the</td>
<td>10. with slewing and creating vehicles that have an</td>
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<td>11. focus and really our accountability here around the</td>
<td>11. illiquid sleeve is after a large event that sleeve isn't</td>
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<td>12. focus.</td>
<td>12. so small anymore and many of those events can lead to</td>
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<td>13. But, Gilbert, continued kudos that you and the</td>
<td>13. that forced selling of something that can't be sold.</td>
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<td>14. full committee for, I mean, amazingly, you know,</td>
<td>14. There's a chance of it.</td>
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<td>15. bringing to light with the appropriate sense of urgency</td>
<td>15. So the idea of other kinds of vehicles are</td>
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<td>16. and vastness of the. Well done.</td>
<td>16. very interesting to explore, where investors are taking</td>
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<td>17. And on ESG, outstanding work as usual. I was</td>
<td>17. a liquidity risk, and then they can have access to the</td>
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<td>18. really struck by what I think I hear is the sequencing</td>
<td>18. assets that are beneficial if you're willing to take a</td>
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<td>19. advice of the subcommittee, which is issuers before</td>
<td>19. little liquidity risk.</td>
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<td>20. product, you know, sort of managers for the product</td>
<td>20. So I look forward to hearing where you end up</td>
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<td>21. world if you will, the buyers.</td>
<td>21. with on the vehicles and that was where my mind was when</td>
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<td>22. And really I guess, Ed, at least maybe a</td>
<td>22. -- I'm thinking of several discussions I've been party,</td>
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<td>23. question of, you know, is the subcommittee or is the</td>
<td>23. been able to listen to where people were talking about</td>
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<td>24. AMAC, you know, best suited alone to tackle this issuer</td>
<td>24. the role of mutual funds and what are the best assets to</td>
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<td>25. side of this given of course the sequence (inaudible)</td>
<td>25. have in daily liquidity vehicles versus -- and that</td>
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MR. BERNARD: Great, thank you.

John Suydam.

MR. SUYDAM: Thank you, guys. I thought all of the presentations were fabulous today. You know, I learned a lot.

Two, two quick points I'd make. One, you know, kind of as we were going along and heard a number of comments began to think, you know, one of the things on the access to private investments that I think our group hasn't looked at that we probably should spend some time looking at, is the tolerance within retail for illiquidity. Having heard some people talking about I think that's actually data we might be able to get at, you know, what are the redemptions, what are the -- you know, people borrowing against their 401(k) or taking -- you know, what is the real need for liquidity within segments of that market. I don't think we've actually looked at that yet and you probably should be looking at it.

The second thing that struck me today was the ESG, particularly feedback on disclosure that is going to be sought from issuers, you know, because there is a

cold.

So thanks for that.

MR. BAJKOWSKI: Hello. First of all, thank you. John Bajkowski.

MR. BAJKOWSKI: Hello. First of all, thank everybody. There was a number of great presentations today and the conversations and comments from both the Chairman and Dalia were very helpful.

The thing that probably struck me the most was in regard to the workflow that we're doing on the access to private investments. You know, we were kind I think taking, or at least I was perhaps taking an all or nothing kind of approach. But it was a good reminder today that really there's multiple tranches of ways for individuals to gain access to private, be it direct through the funds or probably avenues that exist currently in terms of publicly traded funds.

Closed end funds were something we looked at. There are restrictions now as far as access to qualified investors, but it sounds like the SEC is doing some work in that regard now. But the closed end funds are a great avenue where the redemption risk is on the secondary market. There's a strong disclosure framework currently to help indicate some of the risks and disclose the fees that are being charged as well.

So it's a great platform to expand to the more general retail investor versus the 50 percent limit that exists now. So I think it's -- it gives us some food to chew on as far as how we can potentially look at different channels that investors can have, whether it's through retirement assets or direct investments of publicly traded funds to gain access to private markets.

MR. BERNARD: Great, thank you.

Joe Savage.

MR. SAVAGE: Yeah, I just wanted to echo others that these were some really great presentations today. I also wanted to thank Scot and Mike for their kind words, but honestly I was really just capturing the thoughts of my other subcommittee members, Rama, Erik, John Suydam, John Bajkowski, and Adeel. So I think credit should go where it's deserved.

The other thing that I really got out of today's meeting is sort of specific and that is about consultants, the role of consultants, particularly in

allocating money to particular money managers. That was educational. It was kind of a little disturbing as well to me. I think it sounds kind of dysfunctional and it sounds like an area where there could be a lot of improvement.

So that was sort of my takeaway. Thanks, that's all I have, Ed.

MR. BERNARD: Okay, great. Jeff Ptak.

MR. PTAK: Yeah, it was a good day, very rich content. Really appreciate the presentations from the private markets and D&I subcommittees. I thought you did a great job and really appreciate the insights that you brought.

With respect to private markets, I may be sort of repeating myself from a previous meeting. I totally understand the theoretical appeal of adding a sleeve for privates. As some others have already observed the devil is in the detail when it comes to that given the irregularity of some of the cashflows on both sides of the equation, the investor, and then also on the private market side it's just a different animal altogether.

I feel like with target date funds, this is a note I might have sounded previously, I feel like that's been maybe one of the more successful innovations that we have seen in the defined contribution and mutual fund
world in the last couple decades. One of the things
that's really prevailed there has been the simplicity of
it. It's an all in one solution with auto everything
involved.

I think that what's being contemplated here
wouldn't fundamentally alter that, but having a sleeve
that potentially is less liquid than the rest of it and
then just has characteristics that are less familiar and
maybe more daunting in some ways than what you would
typically find in a daily liquidity type of strategy,
lke a mutual fund, is just something that, you know,
would have to be very thought through. Again sort of
the devil is in the detail, so theoretically supportive,
but I would just hope it's presented to the investor in
a way that they can make best use of.

But thanks again for the quality content today
from all the subcommittees, really appreciate it.

MR. BERNARD: Great, thanks.

Jane Carten.

MS. CARTEN: Yeah, hi. Thanks to all of you
for being here and all the fellow committee members and
the Commissioner.

The way that I was looking at it today is just
sort of where are we on the spectrum of change in
progress on the issues that we're addressing. It seems
to me that with respect to private investments we're
still between sort of precontemplation and
contemplation, with the idea of some kind of chaperoned
access into private equity markets for retail investors
gaining some momentum.

The same thing with guardrails and also
addressed the issues with lack of liquidity that most of
you have already addressed in your comments.

Our ESG Committee presented the idea of
action, and sort of further along that spectrum, but I
think with the comments of the Commissioner and some of
the things that the rest of the group has said, we would
remiss if we didn't acknowledge some of the difficulties
involved in presenting even the limited regulation
around the topics of environmental, social and
government investing and disclosure that we mentioned as
a group.

I really absolutely appreciate the
Commissioner's feedback and candor because it is very
helpful and thought provoking.

And finally I really -- I sincerely want to
thank everybody on the D&I Subcommittee. Just the
energy and personal experience that you all bring to
this group is formidable. I'm with Paul that if any of
the panelists, including John Rogers, but not limited to

him alone writes a book, I will be reading it
straightaway.

It's been really wonderful to see this
committee take diversity and inclusion as seriously as
we have. I think that the country is ready for action
and not just lip service alone.

I'm struck today especially by the discussion
of service providers taking the place of diversity
partners and how these metrics need to be examined and
exposed in a thoughtful manner, which helps minority
owned businesses within the asset management industry
itself rather than propelling only ancillary businesses.

And that's it for me. Thanks, Ed.

MR. BERNARD: Thank you.

And Gilbert.

MR. GARCIA: Well, I had a blast, and so I
just wanted to, you know, thank everybody, Dalia
especially, Ed Berman especially for giving me a lot of
rope in support of my fellow subcommittee members, you
know, Paul and Scot. So, I mean, I had a blast.

As it relates to some of the things, I think,
you know, my only concern on the whole retail is that
they have the education to really understand liquidity
issues, other issues. I'm sure we can get over that,
but that's about my only concern.

On the ESG, while the breadth is just, it's
just so complex. So I'm glad that Michelle is breaking
down and I think it's going to be great.

On our own committee, I mean, look, I think
it's -- I mean, I'm biased, right. I think it's great.

Something must be going well because every day you read
about some new thing happening. I have my phone blowing
up with people saying all kinds of things about it.

So again, thank you everybody for your
patience. It's a difficult topic and some of the
language can be a little unsettling or it's just an
awkward topic. So thank you for all your patience
everybody.

MR. BERNARD: Thank you.

And Erik Sirri. Do we still have Erik? I'm
just going to look at my other page. Maybe we lost him.

Aye Soe.

MR. SOE: Thanks, Ed. I really enjoyed the
content across all sessions today.

I'm going to kick off with private markets.
Without a doubt, right, more and more capital is being
formed in the private market and I understand the
subcommittee taking a look into it and how to provide
access for the retail investors.

I also share the concerns about liquidity,
what is the proper way to measure the performance and benchmarking. I think one thing we ought to look at and think through is there's a lot of research that shows that private equity returns can be replicated using liquid instruments.

For example, if you decompose private equity or private markets returns a lot of those have small cap exposure, quality exposure, and value exposure, and can be replicated using those instruments. So that's something, you know, in terms of whether it's benchmarking, or thinking through liquidity, something I would like to see a little bit more as we think through the benchmarking issues and the liquidity issues.

That's around private markets.

On the ESG, you know, I'm a little bit biased because I'm part of the subcommittee, but I will fully admit that there's a lot of work that needs to be done to understand. When we think about ESG, where we want to be ten years from now, we want ESG to be on a standalone basis just like value investing or just like close, or quality, or what have you, and be able to decompose the returns and know exactly what kind of steps and the positions some managers take and what exactly contributed to returns of those ESG strategies. Especially when we look at this year during COVID-19 crisis, a lot of the ESG strategies outperformed. But there's a lot of exposure to growth style stock, the mega cap technology names, and we want to be for the -- for the sake of the investors, the retail investors, we want to make sure that their values are aligning with value and they are exactly getting returns from ESG and now from loading up on the tech names.

So that's something I would like to see. Maybe we're not ready today, but maybe we're ready five years from now, and ten years from now, and we would like to get there.

As for D&I, I'm in big favor and I think the country, somebody mentioned that the country is at an inflection point of taking social issues into consideration and being inclusive. At the same time I'm still reconciling and trying to process the role of the regulator, you know. I can see the board of directors and the investors demanding -- and the allocators, you know, having these D&I factors into consideration.

But I'm still uncertain on the role of a regulator in mandating. So that's something for me to understand more and learn more.

SUMMARY AND DISCUSSION.

MR. BERNARD: Great. Well, thanks. Before I ask Dalia for any last comments she's got, just a couple of things from me.

Number one, it just amazes me the talent and the commitment of this group and the work that's done here by this -- I'm going to speak the committee, I'll thank the staff in a moment.

I will tell you it's extraordinarily humbling to sit in this chair and be a part of all you're doing. I will tell you, as those on the subcommittee know, I tend to frequently sit in on subcommittees as well as this committee, and I learned something -- well, actually I learn lots of things in every single conversation.

So you all have plenty going on in your day jobs, so thank you all for carving out time for this. I think you can see from the kinds of discussion today, the kind of interaction we've got with the Commission, that we're doing important work and that we have the opportunity to help the SEC make progress on some of these issues.

To that point my only comment on the day would be, and I'll pick up a little bit on what Jane said about the different stages of work for the committees. I think the principal approach or the guardrails approach that we're taking in a number of these makes sense. At the end of the day we're going to make recommendations and the SEC is going to have to evaluate them and decide whether and how to act on them. I think we need to provide some room with some clarity of direction as well.

I don't think it's any surprise that all of the issue we've taken up could be characterized as complex. I think the teams have done a great job of breaking down that complexity.

The one observation I would make is as we get close to final recommendations, as we did with PTP, the operational issues, and this will call on our SEC colleague, the IM team, again is that we make sure we sort of find the points where it meshes between our principles and the details of the constructs that are already in place with SEC rules, with SEC, you know, sanctioned products and so forth.

So I think we'll be calling on the IM team to help us make sure we got clarity on that, so that we don't make a recommendation that just doesn't make sense in the context in which it's intended.

And the final comment I'll make, and I'm being wordier than usual today, because we're now at the point where we're getting to some recommendations that we can see reasonable people will differ on.
I would observe two things. One is everyone of our committees and this full committee in discussion is very thoughtful in balancing its approach. My sense is that these, the kind of subcommittees, have operated with the courage of their convictions and I would encourage us to do that.

I think we'll get -- we certainly want to get an alignment wherever possible, and I think the greater the alignment perhaps the greater the odds of moving things forward, but let's not let the perfect be the enemy of the good and let's make sure that -- I just think all of the -- those of you who spent the most time on these issues are developing considerable conviction, and I hope and expect that will come through in the recommendations.

So finally to switch gears I want to say a quick thank you and farewell. Ryan Ludt has gotten an exciting new assignment for Vanguard in London, and try as I might with Christian and team to figure out how under FACA we could have someone in London be part of a FACAC Committee. We haven't been able to figure that one out. I'm not sure that Ryan, since he's taken on a new job, has the bandwidth either.

But, Ryan, thank you for the work you've done and good luck to you with your new assignment in London.

And Ryan, we are going to miss you. Thank you so much for all the work that you have done, especially all the (inaudible). London is phenomenal city. I lived there for many, many, many years, so I'm sure you're going to enjoy. Do make sure that you take the time to explore Europe because that's one of the great things also about being in London.

So just a reflection on a few things. One is, Scot, how you talked about materiality was really thought provoking for me and the framework I thought was really fantastic, and it is showing a shift and there's nothing wrong with that shift, but thinking about it as a shift and thinking about the consequence of the shift.

So in line with that, and Neesha, you mentioned making sure that the disclosure as we talk about materiality and that shift, the disclosure remains meaningful because, you know, we do tend to end up with a lot of boilerplate, very long. Disclosure written by lawyers for lawyers is kind of how I see it. So how do we make sure we don't end up there, to make sure that it is meaningful for investors.

And John Suydam, you also mentioned, you know the burdens of disclosure and, you know, getting that balance right to make sure that we're not just adding a cost and not making sure that we are, you know, thinking about the burdens on the public companies and, you know, knowing how many of them are, you know, coming, becoming public at a later stage and the pressures in that market.

I would also add to that, just thinking about the liability, disclosure does come with liability. So if you're looking at materiality and the shift in materiality, thinking about the meaningful disclosure, the burdens on the public companies and the liability, I think looking at that ecosystem together is -- you know, should hopefully provide a good framework.

But just getting back to Scot, the way you described materiality was really thought provoking for me.

On diversity --

MR. BERNARD: We've lost your audio. Dalia, we can't hear you.

MS. BLASS: We were talking about what -- what can financial regulators do, but one of the things honestly is just having these conversations as well, right. You are shedding some light on a lot of these issues from perspectives of folks in the -- you know, in the industry, on the street, you know, totally affected by this.

I know that it's a learning opportunity for
me, a learning opportunity for everybody else that’s listening to these panels. And, you know, again as we think about what financial regulators can do one thing, and the Chairman mentioned it, you know, we lead by example as well. What we do within our walls of the Commission hopefully is also meaningful.

We have a tremendous amount of diversity in our ranks, including in our senior leadership. We have a lot of women in senior roles, a lot of, you know, minorities in senior roles. When we attend meetings with the industry, you know, we are diverse and we bring that to the table, and hopefully leading by example is something that is also meaningful and can bring an impact.

But thank you for the committee, thank you for all the committee members and the panelists that we had today. We’re closing the year with yet again a very thoughtful and to me very educational meeting. So thank you all and I’ll turn it back to you, Ed.

MR. BERNARD: Great, and all I have at this point is we obviously have not scheduled our first meeting. I mean, in theory we have four meetings a year. In theory we were going to be in person in Washington. So far we have one out of six in person in Washington. I’m not going to be the one to try and predict the next time we’ll have an in person meeting.

I’m going to make an effort with Christian and the team to get some dates up on the calendar for next year. In any case expect to hear from me, probably not in the next week or so, but soon. I’ve been having conversations with various folks, you know, getting input from you. I’d like to come back to the whole group with some thoughts about additional issues that we might put on our plate for subcommittee work in 2021 as we begin to finish some of the work that we’re already doing.

So I’ll just ask you to look out for that and when I do that please give me your best thinking. By all means, as we always do, you represent yourself and your firms, so by all means circulate that and get input from those who you think appropriate.

And with that I would thank everyone again for the day and wish everyone a happy year end, and holiday season, and a very safe one as well in these difficult times.

So thank everybody. Nick, we will call it a day at this point. Thank you all who stayed with us on sec.gov. We hope you found it informative and enlightening. Take care everybody.

A PARTICIPANT: Thanks, Ed.

A PARTICIPANT: Thank you.

A PARTICIPANT: Thanks, Ed.

(Whereupon, the meeting was adjourned.)

******

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I, Cheryl Shifflett, hereby certify that the foregoing transcript is a complete, true and accurate transcription of all matters contained on the recorded proceedings of the event:

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