

U.S. SECURITIES AND EXCHANGE COMMISSION

MEETING OF THE
ASSET MANAGEMENT ADVISORY COMMITTEE

Held Remotely via WebEx
Tuesday, December 1, 2020

AUDIO TRANSCRIPTION

U.S. Securities and Exchange Commission
100 F Street, N.E., Washington, D.C.

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2	
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5	Hester Peirce, Commissioner
6	Elad Roisman, Commissioner
7	Dalia Blass, Director, Division of
8	Investment Management
9	
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12	John Bajkowski
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5	Susan McGee
6	Jeffrey Ptak
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8	Aye Soe
9	Rama Subramaniam
10	John Suydam
11	Russ Wermers
12	Alex Glass (non-voting)
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PROCEEDINGS

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

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.

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.

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, did you want to make any remarks? Opening Remarks - Chairman Peirce.

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

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1 opportunities, and I hope this committee will help us to
 2 think about how we can keep our regulatory structure
 3 adaptable too. Whether it's crypto assets, cybersecurity,
 4 or new uses for artificial intelligence I want
 5 our rules to provide a framework within which the
 6 industry's ingenuity can flourish for the benefit of
 7 investors.

8 One thing that has not changed on the eve of
 9 2021 is the barnacle like presence of ESG on the short
 10 list of topics confronting asset managers. I continue
 11 to believe that for all its hype ESG investing does not
 12 require us to turn our rules inside out to accommodate
 13 it anymore than any other broad genre of investing, like
 14 value investing requires us to do.

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

22 Accordingly, while I've only been able to give
 23 the ESG Subcommittee recommendations a cursory review I
 24 have concerns. The concept surrounding ESG and
 25 sustainability are simply too amorphous and open to

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1 manipulation and multiple interpretation to lead to a
 2 meaningful disclosure regime. To compare ESG
 3 materiality disclosures to those governed and informed
 4 by GAAP principles is in my view mistaken.

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

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

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

25 Whether -- while there is still much to be

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1 done Chairman Clayton has put the Commission in a good
 2 posture to continue exploring how best to open up our
 3 private markets to retail investors. The subcommittee's
 4 findings will no doubt provide important insights to aid
 5 the Commission in its ongoing efforts.

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

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

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

21 MR. BERNARD: Thank you very much,
 22 Commissioner Peirce.
 23 Commissioner Roisman.
 24 Opening Remarks - Commissioner Roisman.
 25 COMMISSIONER ROISMAN: Good morning. I want

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1 to thank this committee for continuing your important
 2 work. We are entering the holiday season, but your
 3 efforts are clearly not letting up.

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

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

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

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

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1 minimizing burden on those issuers.

2 Two, that it is important to seek information

3 that is tailored to the particular issuer rather than

4 impose a one size fits all disclosure requirement.

5 And three, that the SEC's existing principle

6 based rule set, which is grounded in materiality,

7 provides a good framework upon which to building.

8 That said I want to let you know some of the

9 interconnected questions I will be thinking about as you

10 discuss your potential recommendation in more depth.

11 First, how do you believe this recommendation

12 would serve and benefit investors. While I understand

13 many in the asset management industry would like the

14 public issuers to provide more ESG information, many of

15 them have commercial interest in the SEC mandating such

16 disclosure. But the SEC must understand how investors

17 are to benefit from any action we take.

18 Second, investors have now invested around \$2

19 trillion into funds labeled ESG, green and the like, but

20 it is not clear to me that we understand those

21 investors' objectives, which as you noted in your draft

22 recommendation may fall outside risk return alone.

23 SEC required disclosure is predicated on

24 materiality to investors. Without knowing more about

25

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1 these investors' goals, particularly those unrelated to

2 risk return objectives, how can we assess what

3 information may be material to them when thinking about

4 imposing new disclosure requirements.

5 Third, why do you feel comfortable talking

6 about ESG as one concept when E, S and G are fairly

7 distinct? For example, what more G disclosure is

8 needed?

9 Fourth, I've heard from public issuers who are

10 considering how to fulfill investors' requests for

11 information about environmental or social information,

12 that they worry about the liability that comes with

13 providing such information in publicly filed SEC

14 documents. Did you consider ways to mitigate this cost,

15 such as allowing the information to be furnished rather

16 than filed with the SEC?

17 Fifth, to the extent that the goal of this

18 recommendation with respect to public issuers is

19 comparability of disclosure, not new disclosure, why are

20 disclosures of material information different if they

21 happen to fall under the ESG umbrella when in other

22 contexts we do not demand perfect comparability across

23 all categories of material information.

24 Sixth, there have been significant efforts in

25 private ordering around ESG topics that have been

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1 valuable in furthering the same objectives sought in

2 this draft recommendation. Have you considered to the

3 extent to which rule based mandates might stifle the

4 development of such currently evolving measures?

5 Finally, to the extent that you are

6 considering recommending that the SEC incorporate

7 certain third parties' disclosure guidelines into our

8 rule set have you thought about how the SEC should

9 oversee those third parties?

10 Also, should we extend our oversight further,

11 for example, to ESG index providers or ESG rating

12 agencies since so many ESG funds and investment

13 products are derivatives of their work?

14 I'll stop her for now as these are the

15 questions that I hope you think about today and in your

16 continued deliberation. I'm grateful to the ESG

17 Subcommittee for bringing this potential recommendation

18 in draft form to the full committee for discussion. I'm

19 sure that everyone on the committee will bring valuable

20 perspectives to these questions given the array of

21 expertise represented from the various parts of the

22 asset management industry.

23 Before any final recommendation is presented,

24 however, I hope you will engage with a variety of public

25 issuers. After all the bulk of this recommendation in

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1 its current form focuses on obligations only they will

2 bear.

3 Again I appreciate the work and thought that

4 you are devoting to this undertaking. As always my door

5 is open to continuing this discussion and I look forward

6 to supporting your efforts. Thank you very much.

7 MR. BERNARD: Thank you very much,

8 Commissioners Peirce and Roisman. We're grateful for

9 your attendance and for your remarks.

10 Now I'll turn it to the Director of Investment

11 Management, Dalia Blass, who I think would like to share

12 a few thoughts as well.

13 MS. BLASS: Good morning, thank you, Ed, and

14 welcome all to the last meeting of the Asset Management

15 Advisory Committee for the year.

16 Before I start let me remind you that I'm

17 speaking today only for myself and not for the

18 Commission, the Commissioners or my colleagues on the

19 staff.

20 As we close the AMAC first year I would like

21 to acknowledge the important workstreams and issues in

22 which the committee has engaged and provided the

23 Commission and its staff with valuable input.

24 The AMAC explored the evolution of the

25 industry, framing future discussions with a data based

1 foundation. After exploring the value proposition of
2 the asset management industry, the evolution of the
3 public and the private securities markets, the
4 globalization of the asset management industry, the
5 committee identified four initial workstreams, retail
6 client backed private investments, ESG, diversity and
7 inclusion, and the impact of data and technology.

8 The committee hosted panels and subcommittees
9 analyzing each of the priorities. Despite this very
10 ambitious agenda the committee took the time to consider
11 and offer recommendations on issues raised during the
12 COVID-19 pandemic for the asset management industry.

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

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

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

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

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

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

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

24 It would be helpful to understand how this
25 bifurcation is appropriate given the significant

1 differences in the fund E,S, and G strategy. So we look
2 forward to discussion on this topic today.

3 In addition to the presentation by the ESG
4 Subcommittee the Private Investment Subcommittee will
5 provide an update on its work and the Diversity and
6 Inclusion Subcommittee will host a panel discussion.
7 That panel is the latest in what has been a very
8 informative series of discussions on challenges to
9 improve diversity and inclusion in the asset management
10 industry.

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

14 As always I would like to thank the Chairman
15 and Commissioners for their participation today, as well
16 as the staff from IM and the Commission's Office of
17 Information Technology for enabling us to meet today.
18 In particular I've always mentioned the IM staff that
19 has been -- there's so many on the team that provide the
20 support for AMAC. I really would like today as we end
21 the first year for the AMAC to highlight what
22 (inaudible) particular a huge thank you to Christian
23 Broadbent who has been our lead on the IM staff in
24 supporting the committee and has been truly remarkable
25 this entire year, the amount of time and work that he

1 puts into getting the committee ready for every
2 discussion. Subcommittee discussions have been
3 remarkable.

4 And I will not that I got my final packet for
5 today almost close to midnight, just showing you how
6 much time he puts in and devotes to every single piece.
7 So a huge thank you to Christian for all the work and
8 his leadership of AMAC support team.

9 Ed, I also would like to thank you for your
10 tremendous leadership this year. I would like to thank
11 all the committee members, the subcommittee chairs, and
12 our panelists today for all the time you have dedicated
13 to moving us forward on these very, very important
14 topics.

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

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

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

24 This morning we'll hear first from the Asset
25 -- the Access to Private Investment Committee. After

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1 what I might characterize as a both lively and
 2 substantive panel in our September meeting, the
 3 committee will update us on their continued work, talk
 4 about some next steps, and share some of their emerging
 5 thinking that will shape recommendations to be brought
 6 back to the committee in the future.

7 After a brief break the ESG Subcommittee will
 8 also update us on their work, and as you've heard they
 9 will be more specifically discussing potential
 10 recommendations that would likely come back for the
 11 first meeting of 2021, after some additional work.

12 As each of these teams are getting pretty far
 13 along in their work I hope the committee and
 14 Commissioners will actively engage for questions and
 15 comments.

16 During our lunchbreak, the AMAC will hold a
 17 non-public session to discuss some administrative
 18 matters and you'll get some instructions on that at noon
 19 in terms of technology, how to switch over.

20 We'll come back together at 1:00 with the
 21 public again for a panel led by our Diversity and
 22 Inclusion Subcommittee.

23 Following their panel in July that presented
 24 the views of trade associations who represent the
 25 interests in diverse and women owned firms, and then in

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1 September with investment consultants and asset owners,
 2 today we'll hear from senior leadership of minority
 3 owned firms.

4 And finally at the end of the day, as has
 5 become our practice, we will seek reactions to the day
 6 and input from the committee with quick remarks around
 7 the table in our lightning round.

8 So with that let me refresh everyone on some
 9 very quick housekeeping. If you run into technical
 10 problems please send a private chat to the meeting host,
 11 which is the SEC Tech Team.

12 We'll each monitor our own status, so when
 13 you're not speaking please ensure you're muted and when
 14 you're ready to speak don't forget to unmute.

15 Please keep the video on so we have a sense of
 16 collective presence, unless you need to step away or
 17 you're interrupted.

18 And finally we'll identify Q&A breaks as we
 19 proceed. In past meetings we found that it works pretty
 20 well just to unmute yourself and speak or raise your
 21 hand and one of us will call on you, so I think we can
 22 operate in the same manner today.

23 With that I will take a pause to see if I see
 24 any questions now by a raise of hand. And seeing none,
 25 Rama, thank you again for your leadership. I'll turn it

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1 over to you for our first panel with about ten extra
 2 minutes if you need them.

3 UPDATE FROM THE PRIVATE INVESTMENTS
 4 SUBCOMMITTEE

5 MR. SUBRAMANIAM: Great, thank you, Ed, and
 6 good morning to the AMAC. I want to thank the Chairman
 7 and Commissioners Roisman and Peirce for this
 8 opportunity to speak as well as Director Blass.

9 As you flagged, Ed, the focus of today is
 10 primarily an update. I would state at the outset that
 11 we're not yet in a position to make recommendations, and
 12 as I'll talk I'll also share my screen.

13 Hopefully, people can now see my screen.
 14 Yeah, can people see my screen okay?

15 I've lost volume. Can you?

16 So as Ed suggested we are here today to
 17 present an update. The 60 minutes will actually really
 18 be taken up by three presenters. First of all Erik
 19 Sirri will kick us off, and the focus of Erik's
 20 presentation is to summarize the findings on whether
 21 private equity provides better and/or diversifying
 22 returns. We focused on private equity so far and when
 23 we talk about next steps I will touch upon what else,
 24 what other asset classes we're looking at.

25 But to date we've somewhat naturally fallen

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1 into looking at private equity with returns in
 2 particular. That was really the subject of the panel
 3 that we had last time. Erik's purpose is to try and
 4 pull together those findings.

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

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

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

22 We also feel that whilst we focus on the
 23 returns from private equity in particular we haven't
 24 really focused on the relative measures of risk from
 25 private investments compared to other retail products

1 that are out there and available to retail investors
 2 such as levered ETFs or ETNs as well as options.
 3 And lastly I had indicated we would -- we
 4 intend to seek feedback and refine the design principles
 5 over the course of early 2021.
 6 So first of all why are we looking at private
 7 investments? Again just a quick recap, we've touched on
 8 this a number of times, I haven't included a lot of the
 9 graphs and data that we've had in previous presentations
 10 but, you know, people are welcome to go back and look at
 11 that.
 12 Really, you know, if you summarize the supply
 13 and demand factors it's a simple as a growing demand for
 14 asset management products, and that really results from
 15 a growing pool of self-managed assets in taxable and
 16 self-directed retirement accounts. We've presented
 17 numbers in the past and the growth is quite astounding
 18 in both taxable and self-directed retirement accounts,
 19 both from demographic factors as well as factors such as
 20 the change in self-directed retirement versus defined
 21 benefit plans.
 22 The second is the supply side where we're
 23 seeing larger public equity markets, but really more
 24 concentrated public equity markets. I think one of my
 25 favorite graphs that we showed last time was the

1 percentage of the S&P 500 that the top ten companies
 2 comprise. That is going to record levels, around one-
 3 third of the S&P 500 just from the largest ten out of
 4 500 companies. So the supply side has become more
 5 concentrated and hence the need to look at other markets
 6 for investments.
 7 The private investment subcommittee is not yet
 8 ready to make recommendations. The main reason for that
 9 is our original gauging issue that we set ourselves of
 10 showing better and/or diversifying returns to public
 11 markets, at least in the context of private equity where
 12 we focus, is inconclusive.
 13 I think, and I don't want to steal Erik's
 14 thunder as he goes through it, I think it's fair to say
 15 that no one is saying private equity returns are worse
 16 than public markets, but there are several issues
 17 including historical returns much better and that gap
 18 getting smaller as more money pours into private equity,
 19 issues such as dispersion of returns between best
 20 performing managers and worst performing managers, as
 21 well as relevant benchmarks and comparability to public
 22 markets, which Erik will touch on.
 23 There are two other issues that were raised
 24 going, really go to the return question, that go more to
 25 the measurement and disclosure of returns, and that was

1 the use of IRR, as well as the question of fees and
 2 transparency and fees, as well as the size of fees in
 3 private markets and private equity that also Erik will
 4 touch on.
 5 As a result, you know, we feel that the
 6 conclusions at least on private equity is inconclusive.
 7 I think it's fair to say they're not worse. How much
 8 better is probably up for debate.
 9 So as a result apart from looking at other
 10 asset classes that we flagged at the start we also
 11 wanted to think about alternative approaches that we
 12 wanted to debate within the subcommittee. For example,
 13 is the absence of evidence of worse returns sufficient,
 14 i.e. if private equity is not worse why not allow the
 15 main street investors to invest, particularly when
 16 institutional investors have access why should retail
 17 miss out.
 18 And the last thing that I mentioned in the
 19 next steps that we also want to talk about or
 20 investigate further is the risk for private investments
 21 compared to some retail investment products. As I said
 22 we focused to date on returns, but we should really
 23 think about the relative risk compared to investments
 24 that could be viewed as risky that are already available
 25 to retail investors.

1 So that's the introduction. I'd like to turn
 2 over to Erik who will cover the first topic, which is
 3 try to and summarize and pull together our findings to
 4 date on private equity returns. I will stop sharing my
 5 screen now.
 6 MR. BERNARD: I can actually --
 7 CHAIRMAN CLAYTON: Yeah, Ed, it's Jay. Would
 8 you mind if I, you know, exert a little last meeting
 9 privilege and take up maybe a few of those extra ten
 10 minutes with just a question?
 11 MR. BERNARD: Absolutely.
 12 CHAIRMAN CLAYTON: And thank you, thank you
 13 for the -- that was a great introduction. I want to --
 14 I'm going to frame this question, and I want to
 15 recognize that it's a narrow question, and it's not the
 16 only question but it's a consumer of financial products
 17 question.
 18 The question I have is, you know, let's say I
 19 have 20 years to retirement and I'm interested in a
 20 target date fund that's well-managed, is going to give
 21 me a diversified, you know, exposure to the marketplace,
 22 why do we not have a product where there's a target date
 23 fund of 20 years that's, you know, let's say 70 percent
 24 equities, you know, 20 to 30 percent fixed income and
 25 cash or whatever, and a parallel product that has the

1 same percentage but then has a 10 percent slice of
2 private equity or alternatives?

3 And I know that, you know, I'm investing for
4 20 years. Let's just say that, you know, the fee on I
5 would say the traditional target date fund is 50 to 70
6 BPS or, you know, less or more, you would probably be
7 adding if I do the math right for a 10 percent exposure
8 to privates, you know, another 20 to 40 BPS.

9 So I could look at those two and I could
10 choose the 70 BP fund or the 90 to 100 BP fund knowing
11 one has exposure to privates, the other doesn't, and if
12 I've got a professional manager between me and those
13 privates, you know, somebody who knows how to select
14 those and make them part of a target date portfolio, you
15 know, they're just as good hopefully as pension fund
16 managers and the like who are selecting these, why isn't
17 that product available?

18 I know that's a provocative question, but if
19 there's something that we're doing wrong with that type
20 of product where retail sits side-by-side with
21 institutional, has enough power because their
22 investments are pooled, they get a good fee deal, has a
23 professional manager there, and it's a portion of a
24 well-managed portfolio just like a well-managed pension
25 fund, you know, what are we, what are we doing wrong

1 that that doesn't exist or am I missing something?

2 So that's my provocative question for the day.

3 MR. BERNARD: Rama, you want to take this one?
4 I'm happy to offer a thought after you or --

5 MR. SUBRAMANIAM: Sure. No, I think it's a
6 great question, Chairman Clayton. So a couple of I
7 guess specifics before we talk more generally.

8 I guess in the case of target based funds and
9 401(k) plans you have the Department of Labor I guess to
10 think about. And, you know, we did I think cover last
11 time a private letter that they provided to a couple of
12 target based funds looking to do exactly that, having a
13 percentage of assets in private investments.

14 I think the micro issue is the fiduciary
15 obligation I guess of 401(k) fiduciaries and why they
16 fall into safe harbors. But step aside from that and I
17 think, you know, you're exactly right. You know, as we
18 sort of head down this path we think safeguarding, and
19 Joe Savage talks about design principles, if you have a
20 -- if you're investing alongside institutional
21 investors, so you know that, you know, you've got big
22 investors that have done their due diligence and you get
23 some comfort from investing alongside them, it's
24 chaperoned access, whether that's a fiduciary or some
25 other method that is looking after your best interests.

1 And then the -- and then diversification. Now
2 you mentioned diversification more in the way of having
3 a liquid, public investment and some private
4 investments, kind of like the mutual fund limit that we
5 have now for open ended mutual funds. The other way you
6 also get diversification is obviously a pool of private
7 investments rather than a single or a small number of
8 private investments.

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

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

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

23 You know, you sort of pick the objective
24 within the context. They worried about the expense that
25 would add because of the high fees, typically high fees

1 for those products. They worried about complexity. It
2 was essentially the fiduciary risk that I would say is
3 more coming from the bailiwick of the DOL and ERISA
4 rules and the SEC as you put it doing anything wrong to
5 prevent it.

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

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

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

25 CHAIRMAN CLAYTON: It is, it is. And, look,

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

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

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

24 As you watch the plan unfold you see
25 participants taking loans against their plan assets or

1 MR. BERNARD: Well, thanks very much for your
2 input there and I think that was a great dialogue.
3 Rama, do you want -- I'm not sure if you were ready to
4 hand off or if you wanted to continue with your opening
5 remarks.

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

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

11 MR. SIRRI: Sure. Let me share my screen.
12 Hopefully, you can see that.

13 So what I would like to do is I would like to
14 summarize what we've learned about private equity
15 returns. If you recall we had a panel in September that
16 talked exactly about this topic. We had four speakers.
17 And as Rama said I want to emphasize that today we're
18 going to be talking about private equity returns as
19 opposed to other types of private investments.

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

1 even liquidating them to pay for things like cancer
2 treatments, and prescription drugs, and long term care.

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

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

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

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

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

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

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

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

24 Additionally there's the timing of these
25 flows. You know, for a traditional long only

1 investment, you buy a share of stock and then that stock
2 throws off cash, it throws off dividends and things like
3 that, that's -- that makes a number like traditional
4 return measurements quite easy.

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

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

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

23 So not surprisingly the alternative is a bit
24 graded to the most common, multiple of money. This is
25 just the idea that how much money could you get out

1 So that's -- that's -- you know, this is the
2 case that you'd like to see if you want to make a case
3 for private equity in a portfolio, such as the target
4 based fund. There is considerable variation, though,
5 over time, and from time to time the public market
6 equivalents do perform a bit better.

7 But as I said the evidence is mixed, so I'm
8 going to draw from another exhibit that we've seen
9 before. This is an exhibit that came from Josh Lerner's
10 presentation that uses different data. This is Prequin
11 data and this is plotting -- the height of the bars
12 represent a public market equivalent where if these bars
13 were one then public markets and private markets would
14 perform the same. If they're negative then the public
15 markets outperform. You can see that on the red bars to
16 the left. And if they're positive at all, I would say
17 as in 2004, then the private markets outperformed.

18 And you can see there's some simple variation
19 over time. When John presented this the point he made
20 was that especially as you look to the right these
21 numbers are very, very close to one. So the conclusion
22 he drew from this was at least over the last five or so
23 years private markets have been forming -- performing
24 approximately the same as public markets, not worse, but
25 in his view, his interpretation of this chart was

1 given how much money you put in. There are various
2 flavors on it, but it's a pretty simple concept. So a
3 number could be two or three, meaning you put \$1 in and
4 in total you got \$3 out. Notice it doesn't take into
5 account when the time was the money came out.

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

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

22 So what's the point of this? The point is
23 that you can see that there's a credible case here that
24 private equity is outperforming. The height of the blue
25 bars is greater than the dots in multiple places here.

1 approximately the same.

2 So what do we know about returns? Evidence is
3 mixed, but that is, you know, it is what it is.

4 Now this is a -- this is a chart that came
5 from Ludo's presentation, and this is going
6 to this question of what investors need to know about
7 returns. This is going to list five funds. You can see
8 the fund names over the on left. They're disguised.
9 They're for different vintage years.

10 What I want to focus on are the far right two
11 columns. One of them is multiple of money, the other is
12 net IRRs to limited partners. These are two measures of
13 returns that investors could care about, and the thing
14 that I want to show is that they don't really rank the
15 same way.

16 So look at the top -- the bottom two rows.
17 Both of those two rows have the same multiple of money
18 at 2.8 times, but you can see their IRRs are about ten
19 points different. And, you know, with -- so the
20 question I asked myself is does this make sense to a
21 typical retail investor? What would they think about
22 this?

23 And I think what I come away with is return
24 measurement is challenging here and we have to think
25 long and hard about how these, how these funds, these

1 pools, how these returns are going to get presented to
2 retail investors. Because for a long only mutual fund,
3 you know, what do you see? In the typical performance
4 tables you'll see one, three five, ten life of fund.

5 Pretty straightforward. This is much more nuanced here.

6 And so I think if these funds were going to be
7 offered as stand-alone funds I think we have to think
8 long and hard about how we want to -- what something
9 like the SEC would want to do and require in return so
10 it's not a, not a straightforward (inaudible).

11 All right. So let me turn to another aspect
12 that our speakers dealt with and this is, this is
13 dispersion of returns. So in this chart, in the bars
14 that you see arrayed across the X axis are different
15 kinds, different strategies of funds.

16 So say on the left you can see venture capital
17 and growth equity. To the right next to that dotted
18 line you can see credit. And height of the bar is the
19 dispersion of fund returns within that category. The
20 blue dot is the median IRR for that category.

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

1 similar, similar points when you look at large mutual
2 funds.

3 But, you know, what's the consideration here?
4 Well, you know, size may be a factor, size of the fund
5 may be a factor as we think about allowable investments.
6 Is there a fund size that is perhaps too small. It's
7 not a conclusion we want to make, but the point of this
8 illustration is to show that in terms of fund dispersion
9 size of the pool is a consideration.

10 So let me come to the last point, and this is
11 a point that Chairman Clayton referred to, and that is
12 diversification. So what we have here are two panels of
13 numbers. This top panel here is for global buyout
14 funds. The bottom panel here is for U.S. buyout funds.
15 Across the rows here are different sizes of funds, that
16 is funds investing in different capitalization of target
17 companies. The numbers in the chart are correlation
18 coefficients.

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

1 you can see that the return and the dispersion are
2 roughly the same magnitude.

3 As you move farther to the right, to things
4 like credit, not surprisingly, you know, dispersions
5 fall, but the reason that's important is if you -- this
6 is a world where there is a reasonable amount of
7 dispersion then that means the selection by investors is
8 going to be important. The choices they have, if they
9 show considerable dispersion, investors are going to
10 need to make choices among various pools of funds, and
11 that selection process is going to be critical for them.
12 It looks to be less important over here for geography.

13 Another, another characterization of
14 dispersion, this time not by strategy but by fund size.
15 So over here you can see if you're looking at my cursor
16 \$200 million fund, and over here you can see \$10 billion
17 fund. The point of this chart is that as fund size is
18 smaller dispersion rises. So \$200 million funds here
19 show dispersion about three times that of a \$10 billion
20 fund.

21 And, you know, that really shouldn't be
22 surprising to us. There are -- they're smaller
23 investors -- they're smaller investments, they may even
24 have fewer investments in those pools, and so, you know,
25 like I said, probably, probably -- you see I think

1 Now you'll notice this is color coded because
2 this is a chart about diversification. So when you see
3 the red here toward the top, these numbers are .5, .6 or
4 perhaps higher, that suggests that the mega cap and
5 large cap global funds are not providing tremendous
6 diversification benefits to their public market
7 equivalents, the S&P 500s, the Russell 2000s.

8 There's not a lot of variation here against
9 what the public the market equivalent is, but the action
10 in this table is moving up and down. The point is small
11 cap PE funds in the global buyout space they have
12 smaller correlation coefficient. They are providing
13 some diversification against the public market
14 equivalent, less so for the larger cap fund.

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

21 So and all this, remember, has to be taken in
22 context. If you recall what I said a few minutes ago
23 measuring returns is difficult. So this chart is taking
24 a series of returns and then comparing them to a public
25 market, like the Russell or the S&P. So it's a doubly

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1 difficult inference, but it's the best that -- you know,
 2 these are the best kind of things that we can do.
 3 We've looked at other sources as well and I
 4 think, you know, I would summarize and, you know, I'm
 5 sounding like a broken record here, the evidence on
 6 diversification is mixed. There is evidence of
 7 diversification, this is an example. Some authors have
 8 found it's quite limited, but there is some evidence
 9 that it does exist.
 10 So let me summarize real briefly what is it
 11 that -- what is our story here on these three points.
 12 The first takeaway I think is that return measurement is
 13 really very challenging. The timing and the direction
 14 of these cashflows play havoc with traditional return
 15 measures like IRR, which is problematic anyway, and so
 16 one is going to have to think long and hard if the
 17 choices are made -- if retail is given a choice of
 18 funds.
 19 Now if in the example Chairman Clayton gave
 20 the fund is just a sleeve that's embedded in something
 21 like a target based fund, then this problem is perhaps
 22 ameliorated. But if the -- if we get to a point where
 23 retail investors have access maybe in an intermediate
 24 form to standalone funds, then we're going to have to
 25 think about how we want to display a return.

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1 The return measurement story itself is mixed.
 2 There's some evidence that it is -- that it does a
 3 outperform public market. There's also some evidence
 4 that it's not that different. But I would say, and
 5 echoing what Rama said earlier, we haven't seen a lot of
 6 evidence that says it's worse, which isn't surprising
 7 given what we know that private investors are doing in
 8 these markets.
 9 And second, there is some evidence that
 10 private equity firms provide diversification benefits,
 11 but as I said it's a -- it's a tough story because you
 12 got to, you got to make those return measurements and it
 13 becomes even more difficult when you compare them to
 14 public markets.
 15 But those are my three points. The sources we
 16 used, if you're interested in them, they're on the last,
 17 on the last chart there.
 18 So that's all I have to say. Rama, I'll push
 19 it back to you. I'll keep sharing the slides for John,
 20 though.
 21 MR. SUBRAMANIAM: Thanks, Erik. I don't know,
 22 Ed, do you want to take some questions, use your
 23 Chairman's prerogative to ask a question, or do you want
 24 to save them for the end? You're on mute, Ed, Ed,
 25 you're on mute.

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1 MR. BERNARD: I'm sorry, I couldn't see the
 2 screen because it's being shared. I can't see if anyone
 3 has got a hand up. I'm happy to go until the end unless
 4 anyone would like to unmute and chime in with a quick
 5 question.
 6 Okay. Why don't we carry on.
 7 MR. SUBRAMANIAM: Okay, John, do you want to
 8 take up with the next topic?
 9 MR. SUYDAM: Sure, my pleasure, and thank you,
 10 Erik for sharing for me.
 11 So one of the thing we looked at at the
 12 committee and again thinking about was whether the work
 13 that we had seen and the information that we were
 14 looking at was, you know, too narrow, you know, whether
 15 the focus which, you know, had been really at the last
 16 meeting where the performance data was looked at, you
 17 know, focusing just on private equity, you know, was not
 18 getting a fuller picture for what private assets and
 19 alternatives look like.
 20 So I have got a couple of slides that I'll
 21 walk through, which is really intended to give, you
 22 know, and try to piece together a little bit of a
 23 framework that we can use when we're going through this.
 24 So if you can flip to the next slide, Erik.
 25 Thank you.

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1 In looking at it there's not a standard
 2 definition of what private investments are or
 3 alternatives, which I think is, you know, commonly used.
 4 There's a couple of key characteristics within these
 5 assets classes. The characteristics include generally
 6 a lower correlation to market indices or traditional
 7 asset classes not listed on an exchange, a lot of
 8 private fund structures.
 9 And one of the things people have mentioned
 10 numerous times already in this conversation is reduced
 11 liquidity. You know, the common alternatives are, you
 12 know, private equity, venture capital, private credit,
 13 real assets, which is a fairly broad category,
 14 structured products and hedge funds. There are different
 15 ways to group those, but this is, you know, kind of
 16 common categories that people use.
 17 Erik, if you could flip to the next page.
 18 To give a little bit of more detail on each of
 19 these, private equity, which we spent the most time so
 20 far talking about probably doesn't need much more of a
 21 description but, you know, privately negotiated
 22 investments in companies which are not public.
 23 Basically going in at a certain price, and trying to
 24 improve performance, and selling at a higher price.
 25 The next one, which we've also spent some time

<p style="text-align: right;">Page 50</p> <p>1 on, venture capital, similar type of private equity 2 investing but normally the investment is made into 3 earlier stage companies, startups, or emerging companies 4 with high growth trajectories.</p> <p>5 What we spent less time on, you know, kind of 6 -- and if you look we've tried to give some sizing of 7 markets with private equity about 4.5 trillion, venture 8 capital about 1.5 trillion. These are estimates, you 9 know, from numerous data.</p> <p>10 Private credit, which is the next one, which 11 is kind of a growing asset category within the private 12 market sector. These are directly originated financings 13 or secondary loan purchases that -- where the loans are 14 not traded and, frankly, are often unrated. That is 15 about an \$850 billion market at this point, but growing 16 quickly, and very much related to one we'll get to in a 17 minute, which is structured products.</p> <p>18 There's a real asset category that people will 19 generally refer to. It breaks down into a couple of 20 different investments, investments in real estate, 21 investments into infrastructure projects, and into 22 natural resources. The same objective. Generating 23 current income is a little bit more important with it, 24 some yield, and then improving performance as well. 25 That's about a \$1.8 trillion market at this point from</p>	<p style="text-align: right;">Page 52</p> <p>1 The performance, whether it's dependent upon 2 market or whether it's dependent upon generation of 3 alpha within the investments.</p> <p>4 Correlation, we've seen some information of 5 this on private equity but in other classes as well. 6 Alternatives have less correlation to market indices 7 generally.</p> <p>8 Liquidity, very big issue. You know, the 9 traditional investments, you know, very liquid, day-to- 10 day liquidity, and alts generally far less liquidity. 11 And management fees can often be structured differently 12 between the two products, whether it's just a direct 13 management fee or a management fee, an incentive fee 14 structure.</p> <p>15 So when you look at it, you know, you could 16 just sum it up a little differently depending on the 17 classes. You know, it could be more expensive on the 18 alt side, less liquid, more complex. But generally what 19 we've seen on the returns is it could be better in 20 certain of the asset classes after factoring in all the 21 returns, all of the expenses.</p> <p>22 Can you flip to the next page for me, Erik.</p> <p>23 So what I've tried to do here is lay out kind 24 of the world as it exists today for retail investors to 25 try to get access into alternative investments.</p>
<p style="text-align: right;">Page 51</p> <p>1 what we could tell.</p> <p>2 The next one, structured products, is 3 basically using equity to buy investments and then 4 putting structures on them that use leverage and tranche 5 out the investment. That is a very significant sized 6 product, about \$7 trillion, and it's very closely 7 related to private credit.</p> <p>8 And then hedge funds, which people I guess 9 generally know, focus on many things, global equity, 10 fixed income, you know, many different flavors, about 11 \$3.5 trillion.</p> <p>12 You know, so that's kind of a, a little bit of 13 a roadmap of alternatives currently.</p> <p>14 Erik, if you could flip to the next page. 15 Thanks.</p> <p>16 You know, trying to pull what are some of the 17 differences between traditional investments and these 18 alts as a general category, you know, kind of layout a 19 couple of them here. Traditional is much more focused 20 on relative performance and measurement against other 21 indices. Alternative is more on absolute performance, 22 you know, what's the absolute return on the investment. 23 Traditional is generally not leverage, you know, it can 24 be, but generally not. Alternative is greater use of 25 leverage within the structures.</p>	<p style="text-align: right;">Page 53</p> <p>1 So if you look on the far left, products that 2 exist today that offer daily liquidity, that do have 3 some exposure to alt, you know, alternative investments, 4 such as 40 Act liquid alternatives; mutual funds with 5 alternative allocation; publicly traded REITs, which 6 would have the exposure to the real estate; publicly 7 traded BDCs, which have exposure to private credit; 8 listed closed end funds, once again exposure generally 9 to private credit; public SPACs, which I'd like to go 10 into a little bit; and hedge fund reinsurance products, 11 basically insurance companies that then invest, you 12 know, their excess capital into hedge fund type 13 products.</p> <p>14 So for instance if we look within still the 15 liquid category, public SPACs this year for instance, 16 about 60 percent of the IPO volume within the United 17 States this year I believe related to SPACs, raising 18 about \$70 billion across I think 200 or so IPOs. And 19 the reason why I put it in this category is although 20 it's a daily liquid investment strategy you call sell in 21 and out of these products whenever you'd like.</p> <p>22 You know, your SPAC is a stock that you can 23 buy and sell. It's effectively a private equity 24 investment because it is a company that is then going to 25 go look at buying another company, often a private</p>

1 company, you know, within a structure that is in some
2 ways similar to a private equity structure. One
3 probable, you know, differentiation is without as much,
4 you know cross-collateralization across a pool. It's
5 more asset by asset.

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

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

21 Erik, if you could flip to the next one.

22 So here I just wanted to show a quick trend
23 and then follow it up a little bit on the next page. On
24 the left-hand side you'll see within the pie chart from
25 2001 to 2019 the change in asset allocation from U.S.

1 percent allocation to alternatives.

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

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

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

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

25 The second one, distribution fees. Some of

1 state pension funds on an aggregate basis.

2 So over the last ten years, from 2001 to -- or
3 the last 18 years, from 2001 to 2019, the growth in
4 asset allocation within alternatives has gone from about
5 5.6 percent to 19.1 percent, with both the equities and
6 fixed income holdings, you know, kind of going down as
7 that change was reflected.

8 So you've got pension funds basically moving
9 more of their assets over this time period into
10 alternatives. That may be correlated, you know, you can
11 never be completely sure, to the graph on the right,
12 which is effectively the graph of Treasury yields from
13 1980 to 2020, which has been as we all know a steady
14 decline, and we've also imposed on it the assumed rates
15 of return for pension funds over that period also coming
16 down but more slowly to reflect that different yield
17 environment.

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

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

1 the products we talked about before that retail access
2 alternatives have very high upfront and ongoing fees,
3 you know, because of the -- it's either a dual structure
4 or just a heavily -- more complicated, heavily feed
5 structure.

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

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

20 And then the last one being, you know a number
21 of people have pointed this out, very difficult for
22 retirement. It's much easier for a defined benefit
23 staff to get access to alternatives than for defined
24 contribution participants to participate in alternative
25 assets.

1 That was it for the remarks on alternatives as
 2 a broader class.

3 MR. SUBRAMANIAM: Thanks, John. And I think
 4 the two main takeaways from me from that were, you know,
 5 when you sort of go through the other asset classes as
 6 we move to our next steps, how far down that list you
 7 go, right. I think private credit is clearly an area we
 8 need to look at. On the real asset side, you know, real
 9 estate where you've got public sort of REIT versus maybe
 10 private real estate that you can compare and look at.

11 I think as you get further down, you know,
 12 hedge funds and (inaudible) there are so many different
 13 types I don't know how you sort of compare that as well
 14 as maybe structured credit.

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

25 Ed, I can't -- I don't know if anyone has got

1 a hand up or have any questions at this point or whether
 2 we should move on to --

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

5 MR. SIRRI: Rama, shall I stop sharing?

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

8 MR. SIRRI: Yeah.

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

11 MR. SUBRAMANIAM: So while the slides are
 12 coming on just to remind everybody, you know, as you can
 13 see from the presentations and my introductory remarks
 14 we do want to do more work on, you know, more asset
 15 classes as well as look at some of the risks on some of
 16 the retail products that are out there.

17 I just want to reiterate that, you know, even
 18 though we are talking about design principles here we're
 19 not at that point of making recommendations. But, you
 20 know, we have started to turn our mind towards, you
 21 know, how any access might be provided, right, and that
 22 could fall into no access unless you have this or, yeah,
 23 you know, recommending access would be a sort of design
 24 principle.

25 So we thought it was worth spending a few

1 minutes on sharing what, you know, some of the initial
 2 thoughts are.

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

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

8 So my section of this presentation really is
 9 to go over some of the, as Rama said, some of our
 10 initial thoughts about design principles. I think Erik
 11 and John have give us a very detailed summary of efforts
 12 to measure returns on private investments and also what
 13 some of the limitations are in terms of current access
 14 to alternative investments.

15 My goal here is to just go over some of our
 16 initial thoughts about, you know, whether we should
 17 widen access and, if so, you know, in what form and what
 18 should be the, what should be the principles.

19 Erik, if you could move it to the next slide.

20 So as Rama noted the AMAC, we haven't made a
 21 recommendation yet to the AMAC nor has the AMAC
 22 determined whether, you know, it's going to recommend to
 23 the Commission that it create additional avenues for
 24 greater access to private investments or in what form.
 25 So we're not assuming an outcome in that regard, but we

1 wanted to go over some of our goals and principles.

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

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

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

20 Another key design principle that I think has
 21 been talked about by a number of folks before me is
 22 liquidity, and that doesn't really mean that private
 23 investment has to be redeemable on a daily basis or
 24 trading on a daily basis the way mutual funds or stocks
 25 are, but investors do need to understand what the

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1 holding period is for a private investment, you know,
 2 when and under what circumstances can they liquidate the
 3 investment, and whether that period or those
 4 restrictions are consistent with the investor's expected
 5 financial needs over that period. So a lot of that will
 6 have to do with, you know, what percentage of their
 7 assets are appropriate to put into an investment in
 8 private securities, particularly where there's limited
 9 liquidity.

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

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

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1 And of course an investor needs to know what
 2 the fees and expenses are. If compensation is paid to
 3 intermediaries that sponsor or sell the investment, or
 4 investment advisors that manage private investments
 5 underlying portfolios, investors need to know what those
 6 expenses are and how they will impact their returns.

7 As John discussed certain barriers exist today
 8 with respect to access to private investments. A lot of
 9 these barriers were created with the thought that retail
 10 investors simply don't have the capacity or risk
 11 tolerance to be in some of these investments. So what
 12 we see is a lot of the standards are based on investor's
 13 wealth, income, or to a lesser extent financial
 14 sophistication. In some cases institutions may have
 15 greater access to these investments than individuals do.

16 And so basically, you know, if we're going to
 17 widen access it may be necessary for either Congress to
 18 amend the federal securities or labor law, or the
 19 Commission or the DOL will have to amend rules,
 20 implementing those laws in order to accommodate wider
 21 access in some circumstances.

22 So Erik, if you can move it to the next slide,
 23 please.

24 So what should be the principles of wider
 25 access? Some of the -- some of these are need to

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1 accommodate features of traditional investments, such as
 2 stocks and registered funds. These can include things
 3 like diversification. Obviously the greater and number
 4 and kinds of securities and other assets held in the
 5 private fund portfolio the less risk of loss due to poor
 6 performance of a single asset or a single issuer.

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

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

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

25 Chaperoning is another issue. Should access

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1 be chaperoned, meaning that there's some intermediary
 2 kind of making sure the retail investor, particularly
 3 those that are less sophisticated, don't make poor
 4 decisions based on limited information and
 5 understanding. Should there be a fiduciary involved,
 6 should there be certain kinds of intermediaries making
 7 selections about what the appropriate private investment
 8 options should be.

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

16 Lastly, looking at some of the possible access
 17 vehicles, some of these exist today, private equity
 18 funds or private equity funds of funds are out there,
 19 mutual funds that hold a sleeve of private investments
 20 as Chairman Clayton mentioned. Closed end funds that
 21 obviously don't have to be redeemed on a daily basis,
 22 instead trade on a public market, they may have a
 23 greater opportunity to invest in illiquid securities.
 24 Whether retirement plans should include private
 25 investment options either through a private fund or

1 perhaps through a registered fund that holds private
 2 investments and whether there's other structures.
 3 Again if it's in the retirement fund space,
 4 you know, we're going to need to think about traditional
 5 fiduciary obligations that attach to those, those
 6 investment plans.
 7 Erik, if you could advance the slide.
 8 So lastly, I think what we're asking is
 9 committee input, what factors does the committee think
 10 are the most important in designing greater access and
 11 what investor protections need to be kept. Lastly, what
 12 are the next steps you would recommend for our
 13 subcommittee. Thank you.
 14 I'll turn it back to you, Rama.
 15 MR. SUBRAMANIAM: Thanks. You know, I think,
 16 you know, these design principles, particularly on slide
 17 four, you know, happy to hear feedback.
 18 You know, I think in terms of the vehicles
 19 that we already have and, you know, echoing an earlier
 20 comment about incremental change, you know, I really
 21 think the scope within the closed end fund space to
 22 perhaps -- you know, not in the retirement account, in
 23 the taxable account space to increase exposure to
 24 privates.
 25 I know there's been some work that's being

1 small buildings, which I'm sure are not that incredibly
 2 easy to value, and they provide the liquidity. So I
 3 think they've been around for a while.
 4 Second, second, you need long term investors
 5 or at least investors who are not a private kind mis-
 6 pricings in the fund. So I think there's a lot of
 7 investor protections that need to be considered here,
 8 not only pricing, pricing, having the right price in
 9 case somebody needs to redeem, that's important, that's
 10 why professional management is important, but also
 11 having protection, protecting investors from one another
 12 like this.
 13 For example, I own a stable value fund and one
 14 could imagine timing in exit from a stable value fund at
 15 a time would disadvantage others because it's not quite
 16 priced perfectly.
 17 I just wanted to -- another thing is that I
 18 think there's just a lot of things out there that are
 19 private investment like. And John, you brought up a
 20 bunch of these REITs, emerging market, retail funds,
 21 emerging market debt funds. There are number of things
 22 in the Kia Real Estate account. There are a number
 23 things out there already.
 24 It seems like that we should at least think
 25 about a way to design this so that there still can be

1 done in consideration around the 15 percent limit on
 2 closed end funds and on illiquid investments. There's
 3 still obviously the accredited investor requirement for
 4 closed end funds but, you know, a lot of the disclosure
 5 that you get with a registered investment company and a
 6 closed end fund could go a long way towards meeting
 7 those design principles.
 8 With that, Ed, we've got about ten minutes. I
 9 don't know if you want to exercise your prerogative to
 10 ask the first question or take questions from anyone
 11 else.
 12 MR. BERNARD: I was going to make a comment.
 13 Russ, I see your hand up. Go ahead.
 14 MR. WERMERS: Yeah, thanks, John, Joe, great,
 15 great presentation. I just wanted to make a couple of
 16 observations, first. Some of these I think echo some of
 17 the observations the Chairman made.
 18 It seems to me that the best structure for
 19 private assets for individual investors is some type of
 20 professionally managed fund to fund structure that maybe
 21 has a barbell structure, many liquid assets in it, and
 22 some sleeve of the illiquid assets like private, private
 23 equity or private investments.
 24 An example of this is the Kia real estate
 25 account. They own a fraction of their portfolio in

1 redemption and liquidity. You know, one approach would
 2 be to think about redemption fees. If somebody needs to
 3 redeem on a date or a month where the pricing is not
 4 complete for the private investment maybe charge a
 5 redemption fee to dissuade them or at least to charge
 6 them the cost that they're providing -- that they're
 7 pushing on other investors with the risk (inaudible).
 8 And then last comment is, you know, quite
 9 frankly with M&A activity investments in public
 10 securities in the United States, in stock no bonds, are
 11 kind of running out as 401(k) plans and other investors
 12 get -- invest more and more, and pension funds and so on
 13 invest more and more in public securities. You know,
 14 there's some, I guess some sense of maybe this is
 15 pushing the price of public securities up to
 16 stratospheric valuation levels.
 17 I just think at some point we have to think
 18 about a relief valve for somewhere else for investors to
 19 invest.
 20 MR. BERNARD: Great. Michelle, did I see your
 21 hand up earlier?
 22 MS. McCARTHY BECK: Yes, I wondered -- I saw
 23 some of the choices that were laid out in terms of less
 24 liquid or less than daily liquidity vehicles and
 25 wondered a little -- if the subcommittee explored that.

1 Because the -- it requires a great deal of investor
2 understanding if they can't get their funds back on a
3 daily basis, but it is an opportunity and without it we
4 are often -- you know, but putting a 10 percent sleeve
5 of private equity into a more liquid, you know, target
6 date fund we are running the risk that we're
7 transforming the liquidity of that in that vehicle or we
8 would not have to if it had a somewhat longer horizon
9 even, you know, five day, ten day, if that were
10 available in the markets.

11 And so I wondered if the subcommittee had
12 explored those -- that middle set that was shown on one
13 of the slides of less than daily liquidity vehicles.

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

23 MR. SUBRAMANIAM: Yeah, I would just add that,
24 you know, I think to date we've grappled with, you know,
25 the illiquid asset in the daily liquidity, which you

1 already have I guess in some mutual funds and other
2 things versus a diversified portfolio of illiquid
3 investments, right, where you get your diversification
4 but they're all illiquid.

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

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

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

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

1 challenge.

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

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

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

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

1 how and whether they fit in the portfolio.

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

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

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

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

24 MR. BERNARD: Yeah. That's a great, great
25 presentation, great discussion. Any other -- I think I

1 can -- let me just flip and make sure I can see
 2 everyone. It looks like I'm getting everybody on the
 3 front screen. So any other questions, comments?
 4 We are right on time.
 5 MR. SUBRAMANIAM: Any other questions --
 6 MR. BERNARD: I'm sorry?
 7 MR. SUBRAMANIAM: Dalia has a question.
 8 MR. BERNARD: Oh, Dalia, I'm sorry, go ahead.
 9 MS. BLASS: Thank you, Ed. Just a question on
 10 Michelle mentioned just on alternatives, that middle
 11 group of vehicles, and in particular the closed end fund
 12 structures, the interval and tender structures.
 13 So Rama, you had mentioned the 15 percent. So
 14 the intervals, you know, tender offer funds, they don't
 15 have a liquidity requirement. There is a 15 percent
 16 that is a staff imposed limit on funds, you know, if
 17 they are investing in the private equity or private fund
 18 space, then if they invest, you know, they -- if they
 19 invest there's that sleeve, otherwise they have to -- it
 20 can only be offered to AI sort of the basic structure of
 21 it.
 22 And, you know, the staff has been exploring
 23 whether, and how, and if to lift that staff imposed
 24 limit but, you know, we've put out questions, and I've
 25 put them out publicly as we look at that. You know, and

1 I'm just kind of wondering whether the committee plans
 2 to take some time to look specifically at that
 3 structure, which has the right mix of, like, lack of
 4 liquidity if you will because they're not supposed to be
 5 liquid vehicles, they are not -- they don't have the
 6 daily redemption. But there are issues that we have
 7 been exploring, including the compensation structures,
 8 you know, you know, the investor protection issues
 9 perhaps, which is why the staff has historically had the
 10 15 percent limit.
 11 So just wondering if the committee sort of
 12 plans to look at that structure specifically, which
 13 seems more attuned to providing the access to retail
 14 investors and at the same time perhaps in a protected
 15 way to address some of the issues that Erik had noted,
 16 you know, in terms of the tremendous complexity with
 17 understanding the performance, and the returns, and
 18 everything else with sort of picking up these private
 19 investments.
 20 So just wondering if that's something that the
 21 committee plans to spend a bit more time in because it
 22 seems to be a ripe structure for that investment, with
 23 sufficient protections, but obviously some challenges
 24 there too.
 25 MR. SUBRAMANIAM: Yeah, I think the short

1 answer is yes, definitely. You know, it's something
 2 I've discussed with Ed and a couple of members of the
 3 subcommittee. Along that vein of if we have a structure
 4 now that is suitable, even if it might require some
 5 modification, that's a much better way to move forward
 6 than kind of with a completely new one, right.
 7 So we think the closed end fund registered
 8 investment company with all the disclosure and fiduciary
 9 obligations is right as, you know, one of the primary
 10 methods for broadening access for sure, yeah. But we
 11 need to I think just, we need to spend a bit more time
 12 looking at it and be a bit more specific on suggesting
 13 or recommending any changes that might be required.
 14 MR. BERNARD: Yeah, and I think that's one
 15 that Christian and the team, and they've been so helpful
 16 on many practical and legal issues, and I'm sure they
 17 could help us, help the subcommittee in terms of
 18 understanding the details around what you just
 19 described, Dalia, so that the committee can, I think to
 20 Rama's point, take full advantage of what already exists
 21 instead of trying to create new structures.
 22 Any other questions or comments? Great. So
 23 I'm going to suggest we take a break until 10:45 and
 24 then we'll turn it over to Michelle. For those viewing
 25 on sec.gov you'll see a holding screen and we will be

1 back with you at 10:45 sharp.
 2 (Recess.)
 3 UPDATE FROM THE ESG SUBCOMMITTEE AND DISCUSSION OF
 4 POTENTIAL RECOMMENDATIONS.
 5 MR. BERNARD: Okay, let's get started again.
 6 Next up is our ESG Subcommittee chaired by Michelle
 7 McCarthy Beck, and as Michelle will explain they're
 8 getting closure -- they're getting close to potential
 9 recommendations. So I'm sure that the committee has
 10 been engaged with your views and questions, and
 11 obviously we've already gotten some input for the
 12 committee from this morning's earlier remarks from the
 13 Commissioner.
 14 So Michelle, take it away.
 15 MS. McCARTHY BECK: Thank you so much, Ed.
 16 And let me share my screen. So here -- hopefully, that
 17 will be coming up in a moment. Okay, and let me get
 18 this in the full screen mode.
 19 So thank you so much for having us back again
 20 today. I want to start off by thanking my fellow
 21 subcommittee members for all of their diligent work and
 22 activities that got us to this point. So Aye Soe, Jane
 23 Carten, Jeff Ptak, and Rich Hall, thank you very much,
 24 and also to you, Ed, who managed to attend quite a few
 25 of our meetings and contributed some very nice material.

1 So since the last meeting we had -- I'm going
 2 to walk you through what we've done since the last
 3 meeting we had and a little bit on how is ESG different,
 4 the concept of ESG, how is it different than other
 5 products and how we looked at that.

6 We'll be discussing potential recommendations
 7 regarding issuer disclosure of ESG information, and Jeff
 8 Ptak will lead us through that part of the discussion,
 9 and we'll be discussing investor product disclosure,
 10 which I will be discussing, and then Aye Soe will talk
 11 about some of our observations on performance
 12 measurement.

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

23 So since the last time we were updating the
 24 AMAC we have done a few panels. We convened a panel of
 25 investors of service providers and other experts to

1 really understand what do investors need with respect to
 2 ESG information and what's their point of view.

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

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

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

25 We do think that's the best treatment for ESG.

1 When we go through the topic and we talk about the fact
 2 that for instance issuer disclosure is inconsistent
 3 right now there's no one single litmus test you could
 4 use to make sure that 80 percent of the assets equal ESG
 5 in some way. So we think it would be -- it's best
 6 treated as a strategy given that state of data, but we
 7 wanted to correct the record that it was certainly not
 8 the Commission's position.

9 So as we walk through our deliberations one
 10 thing that comes up a lot is how is this any different
 11 than value or growth funds, should these products be
 12 subjected to anything different. And we do also take to
 13 heart the fact that E, S and G are separate things,
 14 they're very different from one another, they may or may
 15 not be blended together as a fund.

16 It was really for the purposes of convenience
 17 to refer to this class of funds that have certain things
 18 in common that we called it ESG, but we do realize some
 19 funds will only do E, some would only do G, some might
 20 do some combo of the two. And there's also terms of
 21 art, impact investing, socially responsible investing,
 22 sustainable investing, that are very important to the
 23 people that carry out those strategies.

24 So we're -- we -- we really just called them
 25 ESG in this presentation for convenience, we do mean all

1 of those things, and we think the answer might be
 2 different in some cases for some of those things. So
 3 again this short presentation you may not see that and,
 4 you know, we may need to bring that a little bit more
 5 fully into the final piece of work.

6 But what's special about E, S and G? These
 7 products have less available public data to support
 8 those aspects of their strategies, so that is something
 9 we think is a common element. It's arguably the G, the
 10 government, the governance factors making this clearly
 11 disclosed and easiest to discern from public data.

12 They may have risk return objectives that
 13 reflect a longer time horizon. So some folks that are
 14 investing in environmental concerns are looking over the
 15 long arc of history of what may go on with those
 16 resources and investing accordingly, so they may have a
 17 somewhat longer time horizon.

18 They may also have a different preference in
 19 terms of a risk profile. So classic performance
 20 measures and risk measures sometimes look at the
 21 standard deviation of lots of daily observations. If
 22 what you're really concerned about is event risk, those
 23 measures don't always pick up some of these
 24 characteristics, and so people may be investing in some
 25 of these factors to avoid certain kinds of event risk

1 that may not always be picked up very well by classic
2 performance and risk measures.

3 Measures of draw down are good risk measures
4 that pick up that risk a bit more, but it's worth noting
5 that just because sometimes the performance measurement
6 literature doesn't pick these up as being different it
7 may be because of that different return and risk profile
8 that people are trying to tune into.

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

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

23 This final bullet point is sort of the crux of
24 the issues, is the problem here important enough to
25 require a solution and the kind of solution that we

1 meaningfulness of risks related to environment, social
2 and governance factors would allow better transparency
3 and better performance measurement accuracy.

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

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

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

20 So the thing that was important to us and what
21 we're asking for is we want there to be a minimum number
22 of material metrics. They need to be tailored by
23 industry. We are not trying to emulate the approach in
24 the EU. So in the EU there's a more fulsome requirement
25 for, and essentially (inaudible) measures to have to

1 propose in our preliminary recommendation or our
2 potential recommendation on issuer disclosure.

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

10 So it's a main street question. But I also --
11 you know, we -- the folks in our room are members of the
12 asset management industry and service providers, and so
13 while we may see how it would help our process and our
14 ability to invest on folks behalf we do appreciate
15 that's not necessarily the end goal of regulation.

16 So we do think what we're suggesting is about
17 investor protection but, you know, a reasonable mind
18 could disagree, and so we should have a vibrant
19 discussion about that. After each of our sessions -- in
20 fact, we'll pause for questions. I can take the screen
21 sharing off to make sure that, you know, we have a
22 chance to get your guidance.

23 So the overview. Our recommendations are that
24 we focused on issuer disclosure as improvements in
25 issuer disclosures availability, consistency and the

1 disclose some of these factors, which is a difficult
2 thing to do if the issuers aren't disclosing them, so we
3 wanted to avoid that.

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

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

24 So I'm going to move now to Jeff Ptak to help
25 us -- to lead us through the recommendations around

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

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

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

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

1 one by one.

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

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

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

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

24 One is that they should be thought of as
 25 authoritative and binding, akin to generally accepted

1 accounting principles. I note the Commissioner's
 2 comments at the beginning of today's meeting that there
 3 are misgivings that they have about this concept, but
 4 there is -- I would say there is ample precedent for it
 5 in the sense that I think some 47 years ago I think
 6 later this month we had Accounting Series Release 150,
 7 which essentially enshrined FASB as GAAP.

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

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

23 You know, I would point your attention to the
 24 fact that -- and I realize that we have a myriad of
 25 different sources of potential standard frameworks, but

1 there are a number of different materiality frameworks,
 2 maps if you will, that have been developed to guide
 3 issuers in determining whether for their particular
 4 sector or industry vertical an issue should be
 5 considered material or not. So there's quite a bit of
 6 work to be done and we would acknowledge that there's
 7 still work that needs to be done to further develop the
 8 concept of materiality, whether it be a universal
 9 standard or something that's more tailored to the sector
 10 or industry concern.

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

19 Why don't we jump ahead another slide.
 20 Thanks, Michelle.

21 In terms of standards that are disclosure
 22 frameworks we thought there were a few objectives that
 23 should drive those frameworks. They should clearly
 24 articulate the principles by which an issuer determines
 25 the backward looking quantitative and forward looking

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1 qualitative metrics and disclosures that should be
 2 presented on material E, S and G risks.

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

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

18 I think that we heard Commissioner Roisman
 19 earlier mention that, you know, one of the
 20 constituencies we certainly have to consider in the
 21 process of interacting with our issuers and considering
 22 the burdens that they face in preparing the required
 23 information and producing disclosures and also
 24 litigation risks. And so this acknowledges the fact
 25 that there could be some burdens on issuers and those

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1 should be taken appropriately into account.

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

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

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

20 I would note that roughly two-thirds I believe
 21 of the disclosure examples on this slide are climate and
 22 environmental related and I think there is none on
 23 governance. I think that reflects the fact that one
 24 could argue the need is most acute when it comes to E
 25 disclosure of material environmental risks that are

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1 being faced by firms in different industries.

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

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

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

20 Okay. Well, seeing none I'll go back to
 21 sharing the content and then we'll pick it back up at
 22 the end. Sorry, it takes a moment to kick in there.
 23 There we go. Hopefully, this slide will move. Okay.
 24 It's decided un-share. Be right back to it.

25 So now we move onto the discussion of

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1 investment product disclosure. So here we went with
 2 suggesting best practices rather than a mandate because
 3 we felt that, firstly, a mandate doesn't work
 4 particularly well when the issuer disclosure isn't in
 5 place.

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

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

20 So we went with suggesting best practices to
 21 enhance ESG investment product disclosure and we
 22 specifically mentioned the taxonomy developed by the
 23 Investment Companies Institute ESG Working Group. It
 24 had very broad industry representation. And as we have
 25 talked with the investors and others in our panels and

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1 some of our firms, people believe it's a reasonable way
 2 to breakdown these strategies into ways that are
 3 comparable.
 4 The product disclosures should include clear
 5 description of each product, strategy and investment
 6 priorities, including a description of non-financial
 7 objectives, and we note such as environmental impact or
 8 adherence to religious objectives. You will see we want
 9 to see a little bit of (inaudible) because it's not
 10 always clear when people give a list of these objectives
 11 which one are there top objectives and which ones
 12 they'll weigh more highly than the others.
 13 And then we further have a potential
 14 recommendation that investment products, there should be
 15 a suggested best practice to describe overall the
 16 approach to share ownership activities. In the
 17 statement of additional information is what we thought
 18 was the best location for it. And any notable recent
 19 ownership activities outside of proxy voting and
 20 shareholder reporting, the proxy voting is already
 21 reported in MPX.
 22 The purpose here for certain funds, this won't
 23 really -- there won't be much here. For some, though,
 24 it's a linchpin of their strategy and so it needs to be
 25 described and then the followed to a certain extent.

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1 Certainly, that would be a best practice if that is
 2 meant to be an important part of your strategy. We note
 3 it here because it's a -- it was a repeat theme in some
 4 of the investment products that we've seen. And again
 5 there are -- some people were using it more casually
 6 than others and we thought it was a best practice to
 7 really be clear on what you expect to do in terms of
 8 share ownership activities.
 9 So when we -- in my first recommendation or
 10 potential recommendation we mention the investment
 11 companies institute ESG working group taxonomy.
 12 Strategies could be classified in one or more of the
 13 following categories. Do they include securities based
 14 on some kind of a filter, do they exclude securities
 15 based on some kind of a filter, or do they include
 16 securities based on some kind of impact on a wanted
 17 outcome.
 18 So good disclosure should discuss how the
 19 product carries that strategy and objectives. It should
 20 give a bit of priority. It should also reference, we
 21 suggest in the longer document that we included with the
 22 meeting materials, it should also reference the use of
 23 third parties, so is this internal research only, is it
 24 using some external party. Those would all be very
 25 helpful things for people that are selecting among

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1 investment products.
 2 With ownership activities we call this kind of
 3 following group, those activities, how they expect to
 4 vote proxies, whether they engage management
 5 individually or participate in collective outreach to
 6 management, are they expecting as a key part of their
 7 strategy to lead shareholder motions, or anything else
 8 that's key to their strategy. So we thought it would be
 9 helpful to suggest to folks if they're going to say that
 10 they do these things to note them in the statement of
 11 additional information and then periodically report on
 12 their activities in shareholder ownership activities.
 13 So that is the summary of our recommendations
 14 on investment products disclosure. I was going to turn
 15 now to Aye Soe to talk about where we got to on
 16 performance measurement.
 17 I'll pause for a moment and note we had five
 18 workstreams. We had one that was about value versus
 19 values, we had one on proxy voting, and we folded those
 20 into the investor disclosure workstream because they
 21 were all aspects of this form of disclosure that we
 22 thought was covered by this recommendation. But we did
 23 also have a performance measurement workstream that we
 24 heard about at prior meetings that Aye lead, and I
 25 wanted to pass it to her to talk about that conclusions

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1 that we came to.
 2 MS. SOE: Thank you, Michelle. First of all
 3 I'd like to thank Michelle for leading the subcommittee
 4 and also to Ed for contributing greatly to our
 5 discussions. They were very, very fruitful and very
 6 interesting. And I also would like to thank the SEC
 7 staff for their help.
 8 This workstream is structured as observations
 9 rather than recommendations for a number of reasons. At
 10 the beginning we started tackling with the goal of does
 11 ESG contribute or do ESG factors contribute to
 12 outperformance or to excess returns.
 13 The subcommittee reviewed a wide range of
 14 practitioner and academic research studies with respect
 15 to impact of ESG factors combined as well as E, S and G
 16 separately and the contribution to performance. We find
 17 that there was no clear picture that ESG factors
 18 definitively contributed to outperformance. There was
 19 no -- because there is no clear picture we do not have
 20 any conclusive, you know, statements on whether ESG
 21 contributes to outperformance or not.
 22 The subcommittee also explored whether it
 23 should take any action regarding performance reporting
 24 for ESG related investment products. We looked at the
 25 existing SEC requirement for performance disclosure as a

1 starting point, and our view is that ESG should not be
2 treated any differently than any other investment
3 strategy, for example value, low value, or any other
4 investment style.

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

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

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

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

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

22 Because as we know you can call something
23 green as long as the SAI and prospectus disclosure,
24 which is nuanced, and lengthy, and sophisticated,
25 details how you define those terms, and as long as you

1 and need.

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

4 MS. McCARTHY BECK: Than you, Aye. Sorry, I'm
5 having a little trouble with the buttons here.

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

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

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

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

1 comply with your own disclosure you've essentially
2 fulfilled all of your legal and regulatory obligations.
3 But there remains sort of a disconnect for investors
4 who, you know, when you ask them what is it that you're
5 looking for and they say I just want to know whether the
6 fund invests in companies that have a history of good
7 corporate stewardship on the environment or what have
8 you.

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

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

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

23 So that, that was why we were focused. If the
24 issue is about truth in labeling, investor confusion,
25 and consistency of the investment products, none of the

1 other interventions that we can come up with would be as
2 able to craft that as issuer disclosure.

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

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

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

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

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

1 add.

2 MR. DRAEGER: Thank you.

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

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

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

19 And because of that I would urge the
20 subcommittee to even put more emphasis on, you know, at
21 least at a theoretical, recommending that a secondary
22 ESG benchmark be required or at least strongly
23 recommended. And I know that that comes with issues
24 because we have different ESG funds, that have different
25 ESG strategies that, you know, we wouldn't -- we

1 wouldn't benchmark a value fund, a small cap value fund
2 against the S&P 500 Index. I think that ESG funds are
3 like that, multiplied by about ten in terms of their --
4 the likelihood that they're going to over the short run
5 out -- out or underperform any kind of broad based index
6 that we find out there. So just a comment.

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

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

1 So we went into that and I do agree that when
2 we look at the Blue Sky and in the perfect world having
3 a secondary style adjusted, data adjusted, industry
4 adjusted benchmark makes it an apples to apples
5 comparison for sure just as much as we wouldn't, you
6 know, compare S&P 500 Value Fund to a, you know, to S&P
7 500 because it won't -- it wouldn't be apples to apples
8 comparison.

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

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

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

17 My only comment really is -- I guess it's in
18 the truth of lending vein or the advertising vein. Is
19 there some sort of minimum threshold that a manager
20 that's managing some type of ESG fund and is now going
21 out saying it's E, S and G, is there a threshold that
22 they themselves should abide by in the E, S and G,
23 particularly the S and G, before they even, I don't know
24 allowed to be able to put that type of able on their
25 fund?

1 MS. McCARTHY BECK: That was the question we
2 debated and we thought at the very least if they
3 disclose what do they mean by it, how do they carry it
4 out in their strategy, that gives the investor a good
5 ability to scrutinize that and decide whether it meets
6 their test for what someone should be undertaking.

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

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

19 So is the CEO the same person as the chairman.
20 That's something that's -- that's something that
21 governance funds often don't prefer. You can find that
22 in public information.

23 So that was one of the things that inspired us
24 to say a parsimonious set of public information can be
25 used as a litmus test for certain kinds of holdings and

1 The presentation was very good.

2 I guess my question is a little bit around the
3 EU and as, you know, their regime sort of goes into
4 effect in March of next year and some of the U.S., you
5 know, fund managers could be subject to some of their
6 regime requirements if we market in the EU. I think --
7 I'm interested to understand how we ensure that although
8 we might not want to follow the EU's, you know, path how
9 do we ensure that we're not creating disclosure
10 recommendations that really conflict with some of the,
11 you know, rules and regs we're going to have to follow
12 in the EU for the U.S. managers?

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

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

1 also then can lead to better ability to validate the
2 strategy and attribute performance to it. So it's a --
3 you know, you have to build to that and it's not a quick
4 fix, but that was, that was why we emphasized really
5 issuer disclosure of key material metrics.

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

9 MS. McCARTHY BECK: That is clearly one in the
10 S world. That is something that can be a factor that
11 people can be seeking. I like the idea of trying to use
12 a standards board for that concept of what is material.
13 And so we weren't in these set of recommendations trying
14 to ensure all of the things that you might want to have
15 happen at a company, it was about disclosure of material
16 risks, which actually concentrated demographics could
17 be.

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

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

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

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

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

21 That's not what we're asking for here. We're
22 not trying to create a blinking dashboard of the entire
23 climate, but for folks investing in a company to let
24 them know what the material risks of that company are,
25 and that is a smaller standard than really the EUs

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1 approach, which is more, is more comprehensive to the
 2 questions.
 3 What we worry about the more comprehensive
 4 sort of questions is it could cause disclosure expense
 5 without benefit for a given issuer's securities and that
 6 people would have to have an enormous table of tiny
 7 risks that they're reporting on. That's not the way --
 8 that's not what we think is needed in the area of issuer
 9 disclosure. It's already a lengthy set of documents, a
 10 lengthy set of burdens. It's really about materiality.
 11 MS. LAROCHE-MORRIS: Thanks, Michelle.
 12 MR. BERNARD: I see Dalia's hand up, Michelle.
 13 MS. McCARTHY BECK: Hi, Dalia.
 14 MS. BLASS: Hi, Michelle. And thank you all
 15 for such a great presentation. It was -- it's really
 16 helpful in the context and the setting.
 17 So I still come back to -- all my questions
 18 are on the table, but in particular I want to focus on,
 19 you know, the materiality standard that, you know, the
 20 Commission historically has looked to with respect to
 21 risk disclosures and, you know, whether your, you know,
 22 draft recommendation would change that.
 23 And in particular something that jumped out at
 24 me when I was listening to the presentation is the
 25 idea, you know, that Jeff mentioned that perhaps for

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1 smaller issuers there might be like a tiering or a
 2 different standard. And, you know that's something that
 3 really would be fundamentally different. If there's a
 4 risk disclosure there is a -- if there's a material risk
 5 disclosure, there's a material risk disclosure and size
 6 is not indicative.
 7 So, you know, if we could just come back to,
 8 you know, how does this change or potentially change the
 9 materiality of risk disclosures that has been the
 10 standard norm and for the smaller issuers, you know,
 11 cross benefit that may assist them, but also could it
 12 leave them behind, so is there a capital formation
 13 impact, you know, for these smaller issuers.
 14 And just finally, you know, a comment or, you
 15 know, I'm really glad that the plan for the committee is
 16 to engage with the issuer community because obviously
 17 this would be a very fundamental change for them. So
 18 it's really important to get that viewpoint as well as
 19 you continue that process.
 20 But if you could speak a little bit more to
 21 the smaller versus bigger issuer, the capital formation
 22 impact and the change to the materiality standard, I
 23 think that would be helpful. Thank you.
 24 MR. PTAK: Sure thing. So maybe, Michelle,
 25 I'll take this one so it focuses on issuer disclosure.

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1 So I don't think that our potential
 2 recommendations contemplate a fundamental rethink of the
 3 way the Commission has approached defining financial
 4 materiality. I think that we drawing on the work that's
 5 been done and what you might call the third party
 6 standard setting community, you know, tended to focus on
 7 that nexus of financial materiality and some of these
 8 other categories of risk that maybe aren't being as
 9 consistently and richly presented to investors as they
 10 can.
 11 If we think of climate and environmental
 12 related disclosures, or perhaps there is financial
 13 materiality to them but the disclosure practices can
 14 vary considerably even within a particular industry
 15 vertical creating challenges for the investor who's
 16 trying to ascertain what those risks could mean to the
 17 company's future or do a comparison to other peers
 18 within in that industry. But again I don't think that
 19 we imagine that, you know, it's time to sort of cut our
 20 previous definition of materiality to ribbons and start
 21 anew. It's really about sort of that nexus and how it
 22 is we can drive even richer, more comparable and
 23 meaningful disclosure in these areas where there is an
 24 emerging need for it, you know, climate arguable being
 25 one of the most pressing of those.

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

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

15 So the standard of having the issuer figure
 16 out their own materiality wasn't working for investors
 17 in that case. You know, that maybe true in a lot of
 18 areas, but that was one thing that caught our ear.

19 The other thing that we wanted to avoid was
 20 really having a rabbit hole of disclosures for folks, an
 21 infinite set that never ends. So we were just trying to
 22 manage that, and this idea of chairing by size of issuer
 23 was a concept we had that may not work under the, you
 24 know, the laws governing materiality.

25 The thing we noted, though, that when you look

1 at the numbers of disclosures that might be needed the
 2 governance set is fairly constrained. The environmental
 3 set you can also put a box around that. Social I think
 4 is what concerns everybody that, you know, you could --
 5 the different ways companies could interact with
 6 people's different values or issues that they see as
 7 important seems like it could be infinite. So that is
 8 something that we received a lot of cautions about.

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

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

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

1 -- you all may have already worked on.

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

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

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

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

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

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

23 We've also gotten some additional suggestions,
 24 which have been helpful for particular industry groups
 25 in areas where perhaps some of the E, S and G issues are

1 more pronounced or the subject to greater disagreement I
2 suppose you would say, and so they too are an area that
3 we look forward to having a dialogue with just to make
4 sure that we're forming a complete picture of what those
5 different costs and benefits are from the standpoint of
6 all the different stakeholder groups that we want to be
7 mindful of as we're making our final set of
8 recommendations.

9 MS. McCARTHY BECK: Any other questions? Were
10 there any other hands raised?

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

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

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

24 We'll have an administrative session, and I
25 think we'll still just have that begin at 12:15. What

1 I'm going to ask is for committee members as we turn to
2 the lunch hour and put up the holding screen for sec.gov
3 just stay on for a couple of minutes so the tech team
4 can make sure everybody knows how to get to the breakout
5 room for that discussion later.

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

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

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

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

23 So with that, Nick, if you would take us to
24 lunch break. And for those on sec.gov we'll be back at
25 1:00 sharp.

1 (Recess.)

2 IMPROVING DIVERSITY AND INCLUSION IN THE ASSET
3 MANAGEMENT INDUSTRY.

4 MR. BERNARD: Okay, thanks, everyone.

5 Welcome back. Just as in our July
6 and September meetings, Gilbert Garcia and
7 the diversity and inclusion team have assembled a
8 distinguished group of speakers, and I'll turn it over
9 to Gilbert now. I'm not sure, he may want to refresh us
10 on the team's work, but certainly introduce the panel
11 and get us going. Thanks, Gilbert, and thank you very
12 much to our speakers. We're really grateful to you for
13 taking time to be with us.

14 MR. GARCIA: Thank you, Ed. And let me begin
15 by saying again to Chairman Clayton and all the
16 Commissioners, thank you for making this a priority,
17 thank you for allowing us to be here, thank you for
18 allowing me to be engaged. I want to thank my fellow
19 AMAC committee members and of course the public that's
20 been so engaged in this topic.

21 Something must be working because there's so
22 much action now happening with diversity, even every day
23 there's something new, and of course we saw now the new
24 item with the NASDAQ proposal requiring companies to
25 have greater diversity on boards. So I think that

1 there's been so much good happening.

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

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

20 And then we went to our second panel and there
21 we had some of the allocators, both from the pension
22 fund side as well as from the consultant side, and we
23 did it from an eye of best practices, and we even had
24 the Treasurer of the State of Illinois who said some
25 very powerful things.

1 So this is kind of the last in our series of
2 sort of intro meetings and then the committee, the
3 subcommittee can get to work on refining what are the
4 best recommendations to bring forward to the AMAC as a
5 whole, and then hopefully to the SEC Commissioners.

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

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

23 And, you know, we've heard from the NAA, the
24 New American Alliance, well Martin was one of the
25 founders. So that's how much he's been engaged. So

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

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

16 So competition for allocations from pension
17 funds is a best practice and it's what's best for money
18 managers, pension funds, mutual funds, and retail
19 investor, and it's based on the fundamentals of what our
20 country was built upon. We've heard the statistics and
21 specifically in the 2017 Knight Foundation study of how
22 only 1.4 of the \$69 trillion pension fund industry is
23 being managed by minority and women owned firms, and of
24 the 1.4 percent is extremely generous and the better
25 estimates kind of are around the Black and Latino firms

1 Martin, welcome, and the floor is now yours.

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

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

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

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

1 account for about 1/2 of 1 percent of those assets being
2 managed by those kind of ethnic minorities.

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

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

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

24 The members of Congress and the public don't
25 want to be appeased with just the mere participation of

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1 staff. So minority and women owned businesses want an
 2 opportunity to compete for the allocations from the
 3 pension fund systems that allow them to grow their
 4 company and be a part of the American system and the
 5 American dream.

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

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

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

25 During some of those structural changes and

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1 providing transparency in disclosure will start to
 2 eliminate those barriers to allocation. There are
 3 qualified firms that are ready and able to grow their
 4 firms, but they need the opportunity to compete in the
 5 marketplace. This is not by any means a social program,
 6 it is merely leveling the playing field and providing
 7 disclosure and transparency that allows firms to
 8 compete.

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

20 The institutional investors are asking for
 21 diversity and the retail investors are asking as well.
 22 It's now becoming part of an investor's criteria on
 23 investing in publicly traded companies.

24 On the SEC website the mission is to inform
 25 investors, enforce federal securities laws, and provide

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1 data, and in the spirit the SEC has an important role to
 2 play in the discussions regarding inclusion and
 3 diversity in the asset management industry, and in
 4 particular the Asset Management Advisory Committee is
 5 breeding ground for ideas and solutions on how the SEC
 6 can be more effective in increasing diversity and
 7 inclusion.

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

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

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

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

25 Shareholders deserve to know, like, who is

1 doing their part in making the effort to find the best
 2 performers wherever they may be, whatever their
 3 backgrounds may look like or ethnic or gender.
 4 So diversity for corporations is key,
 5 diversity in thought, diversity in boards, diversity in
 6 senior management, diversity in all these areas will
 7 allow investors to gauge how open and inclusive each
 8 corporation is in practice and how this impacts their
 9 bottom line. As a result the SEC requiring a diversity
 10 and inclusion scorecard or matrix this will help those
 11 corporations and investors who are looking to align with
 12 ESG policies become better informed, and particularly in
 13 the social and governance components of the S and G
 14 parts of the ESG.
 15 So disclosure of professional services fees
 16 paid could help mitigate the concentration risk of using
 17 only the largest, often white male owned firms to
 18 receive a disproportionate amount of the business and
 19 spreading out the business opportunities with other
 20 minority and women owned firms. Disclosure of the
 21 diversity in senior management and the boards will allow
 22 investors to determine if the senior management team is
 23 implementing best practices in alignment with the
 24 governance aspect of ESG.
 25 My second recommendation has to do with the

1 SEC Rule 206(4)-5, pay to play rule, where it has banned
 2 the institutional investors from making federal
 3 contributions to campaigns. It's everyone's fundamental
 4 right and part of the First Amendment and our freedom of
 5 speech to support individuals that are taking up causes
 6 that are near and dear to our minority constituency, not
 7 just on access to capital but all areas of diversity.
 8 For diversity, environmental issues, human rights
 9 issues, and several more.
 10 We feel it is our fundamental right for the
 11 SEC to repeal this rule and allow firms to participate
 12 in American democracy. The unintended consequences of
 13 allowing the rule has far outweighed the benefits to the
 14 public. It has stymied the minority community on many
 15 issues and has prevented our voice from being heard at
 16 the federal level. I would ask that you rethink the
 17 purpose of the rule and measure the impact of having our
 18 -- that it is having on our democracy.
 19 The issue on access to capital is a growing
 20 trend and the public is asking for disclosure and
 21 transparency on diversity and inclusion. The SEC has an
 22 opportunity to be proactive as opposed to reactive in
 23 making policy changes and implementing rules for
 24 publicly traded companies.
 25 With that I want to thank you for your time

1 and consideration for my recommendations on how the SEC
 2 can implement best practices for the financial well
 3 being of our country. Thank you.
 4 MR. GARCIA: Thank you, Martin. We're going to
 5 immediately go to our next speaker who is Ruby Munoz
 6 Dang and she happens to be a partner at my firm, but she
 7 precedes me by almost a decade. I'm not trying to date
 8 her here, but she's been one of the most senior females
 9 in the money management business for some time as a
 10 senior partner at our firm, which is one of the largest
 11 minority owned firms in the country at just under \$17
 12 billion in assets under management.
 13 So Ruby, she's been a trustee at pension
 14 funds, she's been involved with this issue. Ruby, the
 15 floor is yours.
 16 MS. DANG: Thank you, Gilbert. I would first
 17 like to start by thanking Chairman Clayton, the SEC
 18 Commissioners, as well as Chairman Bernard for giving me
 19 the opportunity to speak today about diversity.
 20 I would like to also share a little bit more
 21 background on myself. I grew up in a predominantly
 22 Hispanic neighborhood with parents of immigrants. I
 23 attended public schools and graduated from a local
 24 college that essentially was a commuter school. And
 25 here I am a 25 year veteran in the financial industry.

1 Now I know this would have never been possible if not
 2 for working for a minority firm. And again I work for
 3 the largest fixed income Hispanic firm managing a little
 4 under \$17 billion in assets.
 5 I want to now go and share some of my
 6 experiences. Again, I've been in the industry for 25
 7 years and I think you would find it interesting what it
 8 was like to be a Hispanic female in the financial
 9 industry.
 10 But first what I would like to do is give you
 11 a little bit of background on the definition. You know,
 12 the definition minority started back in the 1990's and
 13 it was meant to give opportunity to underrepresented
 14 groups, meaning Hispanics and Blacks. Over time there
 15 have been new definitions that popped up and I want to
 16 share those with you.
 17 First, they have changed the definition to say
 18 that you should have a certain amount of assets to be
 19 considered a diverse firm or an emerging firm, and those
 20 assets were just randomly picked and they've been in
 21 place for about 20 years. They're either \$2 billion or
 22 \$10 billion.
 23 And what happens is the good, diverse firms,
 24 minority firms quickly pass these caps because they're
 25 performing and then they are -- they are penalized for

1 that. And also you've got to remember that every asset
2 class is a little different. A fixed income class is
3 different than a small cap equity. Also in revenue, the
4 average fee for a fixed income firm is about high teens,
5 right, and a private equity it's more like 2 and 20. So
6 the revenue is very different.

7 Also with these caps, again, it leaves off --
8 it omits the better of or the performing firms, and I've
9 got an example of that. A few years back we had the
10 opportunity to present or participate in an emerging
11 firm, fixed income search. Well, we were told we were
12 too small. A few months later they had a direct search.
13 Well, then we were told we were too big. Again, these
14 caps present the best supporting diverse firms to be
15 able to participate.

16 Another term is the term of emerging. It was
17 put in place to appease white males. What's happened is
18 a few of them have spun out from larger organizations,
19 and in fact many are sharing their space and resources
20 of the larger firms. So again they are taking the
21 assets that were meant for underrepresented, meaning
22 again minority Blacks and Hispanics.

23 Also what we're seeing is a lot of these
24 private equity firms buying smaller white owned firms
25 and branding themselves minority business enterprises.

1 Again the focus needs to be on minority owned and
2 minority operated.

3 And finally there's been a push to change the
4 percentage of internally owned or held from 51 percent
5 to 25. And having minority ownership is good, but it's
6 not substitute for controlling resources and creating
7 wealth. And again this will just keep those firms to
8 just keep the level of diversity ownership to 25 and
9 never expanding.

10 Another topic that some of our previous
11 panelists have touched on has been the consultants. The
12 consultants are the gatekeepers to our industry and I
13 think it's important to know that one of their main
14 roles is to source managers. In our industry there's a
15 publication called Pension and Investment. Every year
16 they rank the largest hundred consulting firms. The
17 most recent one was in 2019 and shows that the ten
18 largest consulting firms were advising on \$35 trillion,
19 now that's a T, trillion in assets, 83 percent. The
20 largest 20 are advising on \$39 trillion, again T, and
21 that's 93 percent. This has been constant.

22 So I think it's important to know that there
23 are certain trusts that we should keep our eyes out on.
24 Again the previous speakers have talked about the
25 consultants and their lack of transparency and their pay

1 to play practices where many of them are receiving
2 economic benefits from the same managers that they are
3 recommending without disclosure, so something to look
4 for.

5 What we see a lot of these consultants do is
6 they say that they have over a thousand managers on
7 their database. Doesn't matter, if they are not putting
8 them in to participate in searches and then winning, and
9 I think that's the key term here, diverse firms win.
10 When they are awarded they won the business. As someone
11 mentioned earlier the study has shown that diverse
12 managers perform equal if not better than the larger
13 firms.

14 Also -- they also have webinars that are
15 available. And again they can have all the webinars
16 they want but if it does not lead to opportunity then
17 what's the point.

18 As Gilbert mentioned I was a trustee in the
19 past. I was a trustee in the past. I was a trustee for
20 our transit agency here in Houston and I saw -- I saw
21 this being -- while being in this industry. So what I
22 did is I went back to our board and I said we need to
23 adopt a policy.

24 What we did, we adopted something called the
25 Garcia Rule. What this does is it includes -- it makes

1 sure to include in any searches for the fund to include
2 either one woman, one minority or one diverse firm or
3 disabled firm. This gives them the opportunity to
4 present and get familiar with how to present to a board
5 as well as it gives the consultant the opportunity to do
6 research and vet new managers. If you don't cast a wide
7 enough net you'll never find that next diamond in the
8 rough.

9 So again I went back and we put this policy in
10 place and I'm proud to say that it's been adopted by
11 others including the Illinois Treasurer's Office.

12 I'm appealing to the AMAC Committee to bring
13 this issue forward and to the SEC Chairman and the SEC
14 Commissioners that I hope you give this great thought.
15 The power is in your hands. If not you, who? If not
16 now, when?

17 Thank you so much for giving me the
18 opportunity to speak today. Gilbert.

19 MR. GARCIA: Thank you, Ruby. We're going to
20 immediately move to our next speaker and he's our final
21 speaker. When he concludes I'll have a couple of quick
22 comments and then we'll go right into the Q&A.

23 And our last speaker is John Rogers. I like
24 to think of him as the dean in our business because John
25 is very thoughtful, he's been in the business for many

1 decades. There's been too many boards he's served on to
2 even mention them, whether it's the New York Times,
3 Exelon, and others. He's a great human being, but most
4 importantly he's the only one that's been known to have
5 beat Michael Jordan in a game of one-on-one, and that is
6 a true statement.

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

8 MR. ROGERS: Well, thank you, Gilbert. Thanks
9 for mentioning that. I want to thank the Chairman, the
10 SEC staff, you know, Ed and you, Gilbert, for giving us
11 this opportunity today. It's greatly, greatly
12 appreciated.

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

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

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

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

13 My favorite data is from the Federal Reserve
14 of St. Louis where they showed that between 1992 and
15 2016 college educated whites saw their -- saw their
16 wealth increase 96 percent while college educated blacks
17 saw their wealth decline 10 percent. That's pretty
18 amazing over a roughly 25 year period to have college
19 educated blacks down 10 percent where college educated
20 whites were up 96 percent.

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

1 thought was an important part of our economy.

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

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

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

25 We of course had Johnson Publishing, founded

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

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

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

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

22 As Reverend Jackson often says, you know,
23 baseball became a much better sport when Jackie Robinson
24 started to play, and he was quickly followed by Hank
25 Aaron and Willie Mays, and our own Chicagoan Ernie

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1 Banks. When you have total inclusiveness you're going
 2 to have better results. It's going to make for a more
 3 competitive economy and a stronger country and a
 4 stronger nation.

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

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

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1 executives together and meet with minority entrepreneurs
 2 here in Chicago land.

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

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

19 When you finally get a progressive institution
 20 that's interested in working with a minority company
 21 they do it under this term supplier diversity, which you
 22 typically number one includes construction, janitorial
 23 services, catering, things like that, which again are
 24 important parts of our economy, but as I've said already
 25 several times we all know where the wealth, and jobs,

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1 and power is today, it's in technology, it's in
 2 professional services, it's in financial services. I
 3 think it's a modern day Jim Crow if we only get a chance
 4 to do supply chain work and not be included in
 5 everything.

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

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

16 Secondly, I would like to get rid of the term
 17 supplier diversity and use the term that the University
 18 of Chicago uses, business diversity. That implies that
 19 you want to be able to include all the aspects of the
 20 spend. And the University of Chicago has gone from
 21 basically working with zero professional services firms
 22 12 years ago to now over 95 professional services firms,
 23 including 15 money manager for their endowment. So this
 24 term business diversity we think is kind of a big deal.
 25 The third one I agree with completely with

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

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

18 So transparency is important, and then finally
 19 what's been touched on is political empowerment. Around
 20 2018 or so the Wall Street Journal did a story that
 21 talked about that in 2000 -- in the year 2000 if you
 22 looked at the 25 largest cities in America 9 were run by
 23 African Americans. By 2017 it was down to 4.

24 Now, you know, going from 9 to 4 was a pretty
 25 big deal and I understand now things are moving back in

1 the right direction, we're getting more diversity there
2 since the last couple of years, but the fact that we've
3 gone backwards in a time where our country has become
4 diverse I would agree with my colleagues today that does
5 have something to do with Rule 206 where the progressive
6 leaders and diverse leaders are not allowed to
7 participate in our capitalist democracy.

8 As I mentioned earlier I grew up with parents,
9 and grandparents, and great-grandparents who were civil
10 rights leaders, who fought for justice. They told us it
11 was important to be fully engaged in our capitalist
12 democracy. Now for us not to have the opportunity to
13 fully participate in our capitalist democracy, the only
14 industry in the nation that's not allowed to include, it
15 doesn't seem fair and I think it's a direct reason why
16 we have less elected officials and the wealthier
17 communities have a chance to get mayors and governors
18 seats and senatorial seats.

19 So I think it's really important for us to try
20 to open up those doors so all of us can fully
21 participate and get elected progressive mayors that are
22 going to fight for economic justice in the boardroom.

23 And my final comment is I'll give you a quote
24 from Dr. King where he talked about how African
25 Americans could only be liberated from the crushing

1 does it pass the smell test, something as simple as does
2 it just make sense.

3 And when you talk about transparency, whether
4 it's demographic data, whether it's conflicts of
5 interest, all of those things, it all goes back to do
6 the right thing. Transparency we all know leads to
7 better benefits for everybody.

8 It was very interesting, what Treasurer
9 Frerichs -- he said the only folks that would
10 be against transparency are those that their -- the
11 reason they're against it is either centered on
12 embarrassment or defeat. Those words have stuck with
13 me. Those are the only things that people would say we
14 don't want more transparency because of embarrassment
15 and deceit.

16 When you talk about the pay to play rules the
17 thing that comes to my mind is does it pass the smell
18 test. Are we really eliminating money, if that's the
19 key in our industry, or the power of money, when in
20 reality the largest firms probably have even more access
21 politically, whether it's through their PACs, whether
22 it's through their lobbyists, or whether it's through
23 their community outreach.

24 When you look at smaller firms, which of
25 course minority firms are overrepresented, we don't

1 weight of poor education, squalid housing, and economic
2 strangulation, the only way you could be able to
3 overcome that is by being integrated with power into
4 every level of American life. If we are integrated with
5 power in every part of our American economy it will make
6 our nation stronger, it will be a more fair and
7 inclusive economy and country.

8 So I really appreciate the chance to be here
9 and look forward to your questions.

10 MR. GARCIA: Thank you, John. Before we go
11 into questions let me just say thank you again to all
12 the speakers and thank you to all the AMAC members for
13 their patience to hear these things.

14 I know that when you talk about diversity
15 sometimes some of the language can be uncomfortable, but
16 it sometimes could be an uncomfortable topic. But at
17 the end of the day it's a topic that has to be discussed
18 openly and respectfully.

19 If you look at all the speakers we've gone
20 through in these three sessions there are lots of things
21 that kind of bind them together, and it really is
22 interesting how their comments generally all really run.
23 I will use two phrases because they kind of fall into
24 two camps in my view. One is do the right thing.
25 That's simple, do the right thing. And the other is

1 really have those resources and all we're really doing
2 is creating unfair burdens on the smaller firms for
3 compliance, so passing the smell test on what we're
4 trying to achieve.

5 The other thing that I think is important
6 about it all is keep in mind that the large firms, and
7 every now and then we'll read about an infraction, and
8 sometimes for someone like me the numbers are
9 staggering, \$100 million, \$175 million, \$1 billion
10 infractions. And what's amazing is it's almost looked
11 past as if it doesn't even impact their business model.

12 When you look at a diverse firm, a minority
13 owned firm, a Black or Hispanic owned firm, if they have
14 one blemish, one SEC blemish, one regulatory issue, it's
15 immediately -- the consulting community puts a sell
16 recommendation on them and many firms have had to close
17 their doors.

18 So I think transparency is key, I think the
19 does it pass the smell test on the whole pay to play
20 rules and are we really achieving what we're trying to
21 do, or would we achieve much more by making consultants
22 disclose the economic benefit that they get from the
23 very managers they recommend. Transparency, who can be
24 against that. Embarrassment and deceit.

25 And then lastly in many industries you have a

1 place to go if there's discriminatory behavior, whether
2 it's in the housing, whether it's in employment, but the
3 money management space I know a firm that was talking to
4 one of the largest consultants and the consultant
5 outright said we're never going to put you in the search
6 because you don't have enough white male partners in
7 your firm.

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

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

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

23 MR. BERNARD: Great. Let me, let me just
24 first thank once again Gilbert for each of these
25 panelists. You've brought us great, great thought

1 leaders, and thank you to Martin, Ruby and John for your
2 very, very thoughtful and substantive comments. We're
3 grateful for that.

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

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

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

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

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

1 management, and others are \$10 billion in assets under
2 management.

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

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

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

25 John, why don't you --

1 MR. SAVAGE: The thresholds that you and Ruby
2 are talking about are being set by the consulting firms?

3 MR. GARCIA: Generally speaking, yes, but it's
4 now sort of become almost an industry practice of well
5 let's have an emerging search. Well, we should have an
6 emerging search. There are artificial barriers. Some
7 just say \$2 billion randomly.

8 And John, you probably have some better
9 insight because you were probably around when that \$2
10 billion was invented.

11 MR. ROGERS: Well, thanks, Gilbert. Yeah, it
12 was well intended, as you suggest, Gilbert, to help
13 minority firms get hired by doing emerging manager
14 searches or ultimately over time now we think roughly 75
15 to 80 percent of emerging managers are now white firms,
16 not black or brown firms. Because anybody that's under
17 \$2 billion, which is the threshold in the vast majority
18 of states, can be hired no matter what color they are.

19 And so many progressive trustees think they've
20 done the right thing by hiring a minority firm under an
21 emerging manager and don't look behind and find out
22 really those assets went to white firms. So that's one
23 problem with emerging managers.

24 The other one that you suggested, the \$2
25 billion number is so small in a day and age where you

1 have multi-trillion dollar money management firms. All
2 of us are rounding errors, you know, and as we all know
3 to be successful in this industry now you have to have
4 world class compliance, world class technology, world
5 class analysts doing the research, supporting your
6 customers.

7 And so if every time you get close to scale
8 progressive people stop being interested in hiring you
9 it's hard for you to grow your business because of this
10 term emerging. And I've had several times now where
11 I've gone to talk to trustees of major endowments where
12 they said, well, we're looking for the net John Rogers.
13 You know, we don't want to work with you.

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

18 MR. CABRERA: I think just to add to that one
19 of the things that it does, because there's so many
20 definitions throughout the country the SEC having their
21 definition kind of clarifies it for all the pension
22 funds, whether they're corporate pension funds, public
23 pension funds, endowments or foundations.

24 And realistically you don't want to put a
25 limit on the number, whether it's \$2 billion or \$10

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

6 MR. GARCIA: John.

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

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

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

1 billion, because, look, in reality John Rogers isn't
2 going to stop being black, Gilbert Garcia isn't going to
3 stop being Latino, and they're going to grow their
4 firms, and if they're growing their firms they're doing
5 something right. They must have great performance at
6 the end of the day. But that great performance is going
7 to lead to more assets coming to those great performers.
8 So you don't want to limit the growth in some of the
9 minority firms.

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

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

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

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

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

25 You know, the shift to passive management and

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

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

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

19 What's quite fascinating is fees have
20 compressed in the bond side so greatly when I first got
21 in the bond business on the buy side in 1990 the average
22 bond fee was around 40 something basis points, 40, 45.
23 Now it's in the mid-teens. When you start getting
24 larger sums of money, \$1 billion, the difference between
25 active and passive fees is in the 3 or 4 basis points.

1 It's next to nothing.
2 So in reality in the bond issue it's quite
3 clear and we've seen that every crisis, where there's no
4 liquidity in many different sectors, and it's the active
5 manager that's there to raise the assets so the
6 participants could pay their bills. It happened during
7 COVID, it happened during Lehman, and as sure I'm
8 sitting here in the next crisis it will be there again.

9 MR. BERNARD: Chairman Clayton.

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

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

21 What we know and what we found out quite
22 starkly, or should I say emphasized quite starkly in the
23 last nine months, is that participation in our modern
24 economy requires you to be connected from a
25 communication standpoint and from an economic and

1 finance standpoint. If you don't have a bank account we
2 can't reach you, if you don't have the Internet you
3 can't participate in the labor market and grow.

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

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

23 To go to transparency, I agree with Gilbert.
24 You know, transparency, if you're afraid of transparency
25 you're hiding something. But our job is to make sure

1 that transparency is not selective or asymmetric, that
2 it's across the board.

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

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

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

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

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

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

23 Moving away from that, each step you move away
24 from that you may be moving outside of our authority.
25 You know, the same thing in the asset management space.

1 And so to be very candid we have to -- we have to use a
2 mix of our legal authority and our bully pulpit to
3 continue to drive this issue forward and do so
4 transparently, honestly, measuring whether we're making
5 progress.

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

16 CHAIRMAN CLAYTON: Yes, and let me say this.
17 I think one area where we can improve as an agency is
18 ongoing engagement. You know, my view has been if
19 somebody asks me about something I'll tell them what I
20 think our legal authority is and isn't to get it done
21 and where it is.

22 We shouldn't be guessing. You shouldn't go
23 through all the effort to try to come up with some kind
24 of framework and then at the end of the day find out
25 that there's, you know, a legal impediment to that. It

1 has to be an iterative process.

2 You know, the one you raised, you know,
3 selection criteria is certainly something that's within
4 our ambit. Disclosure of selection criteria is
5 something that I feel, and again I'm -- you know, I have
6 an executive role here but I feel from the legal
7 perspective we have a lot of authority around that.
8 People disclose their selection criteria and then they
9 say how did we do against that. That's again within our
10 ambit.

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

20 MR. BERNARD: That's helpful, thank you.
21 Gilbert, at the risk of overusing the Chair I want to
22 ask another question of the group if I may.

23 I think I'll direct it to Martin and John
24 because you both mentioned it in particular. I think
25 we've got an important audience here.

1 On the pay to play rule could you help us
2 understand how you -- obviously that rule applies to all
3 asset managers. I'm going to ask if there's someone out
4 there that's not muted maybe you need to mute. I'm not
5 sure who it would be.

6 But how do you see pay to play
7 disproportionately impacting minority and women firms,
8 women owned firms?

9 MR. CABRERA: I think, you know, Ed, it is
10 looking at kind of for money managers kind of supporting
11 at the federal level folks that are actually championing
12 some of these issues. Even this issue, it has been
13 going on for almost 40 years, but you just really
14 started to hear about it kind of probably in the last
15 probably 10 to 15 years.

16 But I think kind of those pay to play issues
17 were pegged to a fact really to stop some of the actual
18 donations being given by the money managers to some of
19 the oversight committee that can make allocations to
20 those money managers. This is something different that
21 we're talking about. We're talking about supporting
22 kind of federal elected officials, whether U.S.
23 Senators, Congressional members, even kind of, you
24 know, at the Presidential level, to voice our opinion
25 and to hear kind of some of these causes, whether it's

1 on minority participation at the board level or in money
2 management, and it may be environmental issues, but it's
3 kind of issues that we care about.

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

11 And John might have another perspective on it
12 as well.

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

25 So we don't have the wealth. If we have some

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

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

16 And then of course if you did you also because
 17 of what we talked about earlier, the historical
 18 segregation and discrimination in this country, you're
 19 not going to have friends and family who can fund your
 20 campaigns either. If somehow you decided you were going
 21 to go off and try to run and, you know, do real public
 22 service and care, not care about losing your business
 23 and what have you, you don't again have a family of
 24 aunts and uncles, friends, and relatives who can finance
 25 your businesses, and people you grew up with who could

1 finance your businesses and went to -- you know, had
 2 more privilege, and more opportunity, and more multi-
 3 generational wealth.

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

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

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

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

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

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

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

25 MR. BERNARD: Yes, that's great. Thank you to

1 all of you for clarifying that. I'm going to step back
 2 because I think I've asked too many questions and made
 3 too many comments.

4 Any other questions or comments from others?

5 MR. ROGERS: Maybe just one quick comment.

6 MR. BERNARD: Okay, John, go ahead.

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

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

20 I just wanted to say sometimes spending time
 21 like this together and talking about these important
 22 issues it can make change. So our school now is 25
 23 years old. We've been teaching financial literacy for
 24 about 22, 23 years, and it was all inspired by a meeting
 25 like this with the Chairman of the SEC and his important

1 colleagues and staff.
 2 MR. BERNARD: Well, that's a great reminder of
 3 the good things that can happen from this.
 4 I think I saw another hand go up. Scot, was
 5 it you?
 6 MR. DRAEGER: Yes, Ed, and I think Renee had
 7 her hand up as well. I just wanted to acknowledge that.
 8 Renee, why don't you go ahead and then I'll
 9 jump in.
 10 MR. BERNARD: Go for it.
 11 MS. LaROCHE-MORRIS: Sure. Hi, all. Thank
 12 you for the conversation.
 13 When you guys think about bias, barriers and
 14 lack of industry accountability, you know, with where we
 15 stand today where is the biggest obstacle when we think
 16 of where to go next in terms of tackling those three
 17 things? Where do you think is the best place to really
 18 focus initially to make progress based on where we stand
 19 right now?
 20 MR. CABRERA: Renee, I would say that one of
 21 the areas, and what I brought up, is even just
 22 disclosure, where you're not forcing kind of
 23 corporations to make allocations in this space on money
 24 management, but it really just allows kind of for
 25 disclosure and transparency. So those investors,

1 whether they're retail investors, institutional
 2 investors, mutual funds, they can look at the matrix and
 3 the information and determine for themselves whether
 4 they want to invest in that company or not.
 5 So I think that would actually allow kind of
 6 investors and the SEC to make some inroads just on the
 7 disclosure side and providing some insight for those
 8 companies and their best practices if they have it, or
 9 if not, if they don't have it as well.
 10 MR. ROGERS: And I would just echo Martin's
 11 perspective. I think that transparency is the number
 12 one thing, because I think when people really see the
 13 data and see that maybe they spend 50 percent of their
 14 minority spend with construction, and catering firms,
 15 and those important businesses and have zero of their
 16 spend with investment bankers, or money managers, or
 17 mutual fund providers and the like, people of goodwill
 18 will see that that's unfair, and start to do the right
 19 things, and then that data can be utilized by senior
 20 management and the board of directors to move in the
 21 right direction to get equal opportunity in all aspects
 22 of the economy for a diverse community.
 23 So Martin's perspective of transparency I
 24 think is job one.
 25 MS. DANG: And can I just add to that, too,

1 because I do agree that transparency is important, but
 2 the information has to be mandatory. You have to
 3 mandate that they provide you the info. Because if it's
 4 on a voluntary basis you're not going to get any data
 5 and the data will set you free. It's very important.
 6 MR. BERNARD: Great, thank you. Scot, you
 7 want to pick up?
 8 MR. DRAEGER: Sure. First once again thank
 9 you to Gilbert who inspires us all every time we get
 10 together, and John and Martin and Ruby, just terrific.
 11 So an observation and then two questions if Ed
 12 will indulge me.
 13 But, one, picking up on the Chairman's
 14 comments, which were, I think leave us a lot of room for
 15 good work, you know, I think sunlight being the best
 16 disinfectant, you know, the focus on asset allocation, I
 17 think there's some things that we can do in the way of
 18 asking the Commission or recommending to the Commission
 19 that they gather data in registrant filings about
 20 allocation criteria, selection criteria, the actual data
 21 on minority and women owned businesses receiving
 22 allocations, and then employment data. So I think
 23 there's clearly a window of opportunity there.
 24 My bigger question I guess is one I asked of
 25 Robert Raven and some of the prior speakers, for John,

1 and Ruby, and Martin, is a lot of the focus has been on
 2 institutional markets, so 13,500 or so SEC registered
 3 advisors, but only about 1,500 really focus on the
 4 institutional market.
 5 So if we look at all the organizations that
 6 the SEC is regulating it's -- the typical firm is one
 7 that is serving individual retail investors, a lot of
 8 individual stocks and bonds, some funds. I am here to
 9 ask how do we change conduct, biases, hearts and minds
 10 in that whole other segment of our industry outside of
 11 the institutional market? I would be so grateful for
 12 any advice you have on that.
 13 MR. CABRERA: I think one way to start the
 14 change, you can't kind of force investors to change
 15 their characteristics or their criteria, but it is some
 16 of the disclosures so that even for some of those retail
 17 investors and the high net worth investors, they are
 18 starting to look at on their 401(k) platforms, the
 19 403(d) platforms, they haven't been including minority
 20 firms. They've maybe included a select few, but they're
 21 starting to open up kind of to see how they can kind of
 22 help solve those issues, whether it's a Morgan Stanley
 23 or any of the other institutions that are looking to see
 24 how do they become more inclusive for their registered
 25 reps that are out there but allowing kind of the retail

1 investors, the inside section, how those corporations
2 are performing.

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

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

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

20 So if the SEC could put a matrix for every
21 corporation to disclose that information it makes it
22 much easier for investors to take a snapshot and be
23 transparent of what those corporations are doing and how
24 are they acting as far as carrying out their policies in
25 professional services, as well as on their board, and

1 even on their kind of senior management. That's part of
2 the solution too.

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

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

19 So I always tell people we need access to
20 customers as much as we need access to capital. I serve
21 on the board of McDonalds. It's not a coincidence that
22 five of the top twenty black owned businesses in this
23 country are McDonalds suppliers. Once McDonalds agreed
24 to buy sausages from this company and ice cream syrups
25 from Braum and Richardson, those companies had no

1 trouble getting capital from banks to build or grow
2 their businesses because they had an important customer.

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

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

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

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

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

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

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

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

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

23 MR. BERNARD: Okay.

24 MR. DRAEGER: John and Martin, you know, you
25 had both mentioned it and I just want to share a

1 perspective. So you -- to help you sharpen your
2 argument on that I guess and, you know, 2, 6, 4, 5 and
3 putting my kind of nerdy former SEC general counsel
4 office hat on.

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

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

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

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

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

1 is that now as important to someone running for some
2 office as it was back in 1994 when now races are
3 multimillion dollars. Is that really going to corrupt
4 them on something. It just doesn't pass the smell test
5 to me.

6 MR. ROGERS: And I guess I really appreciate
7 your comments, Chairman Clayton. I think it couldn't
8 have been better said.

9 The only thing I would add to it, and this is
10 Arnie Duncan's and not, you know, just speculating here,
11 not just -- or just giving a hypothesis. Arnie is my
12 best friend. I've known him since he was ten years old.
13 He cares deeply about gun violence, and fairness, and
14 he's spending his life helping inner city kids get on
15 career paths.

16 If he decided some day he wanted to run for
17 mayor the fact that I can't support him is heartbreaking
18 to me. The fact that just because he happens to be able
19 to appoint someone somewhere, you know, there just needs
20 to be some kind of middle ground somewhere to negotiate
21 so that you could have things that are just not so
22 overly transformative that exclude us completely.
23 There's got to be some thoughtful way to think about
24 this.

25 MR. BERNARD: That's very helpful insight.

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

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

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

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

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

20 MR. GARCIA: You got it right, boss.

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

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

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

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

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

23 Then with that if I may -- I'm going to
24 suggest we just take a ten minute break and come back at
25 2:40 and we'll do our lightning round and wrap up if

1 that's good.
2 And let me just again thank Martin, Ruby and
3 John. It was really a very, very thoughtful session and
4 we thank you for taking time and sharing, and taking
5 time to prepare your thoughts and then share them with
6 us today, so thank you very much.

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

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

12 MR. BERNARD: Right.

13 MR. GILBERT: And the committee members.

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

16 (A brief recess was taken.)

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

18 MR. BAINE: Okay, and we --

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

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

24 As has become our practice, and we've found
25 this very helpful, just to do a lightening round. It's

1 disclosure is the most critical point there as opposed
2 to benchmarking. I think people will benchmark against
3 all the other indices that are out there, at least for
4 now. But I do appreciate that the subcommittee referred
5 to the ICR report, because I think that report is
6 excellent.

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

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

15 MR. BERNARD: Great, thanks.

16 Scot Draeger, you're up next.

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

20 First starting with the access, retail access
21 to private investments, I thought that Joe's concept
22 outlining principles for why their access represented
23 very thoughtful guardrails and if the -- and Erik's
24 presentation, you know, combined with the data there. I
25 think building that out a little bit and recommending

1 literally one minute each. This was not meant to be
2 extended, but just to share one or two things you heard
3 today that struck you.

4 It's entirely fine if what struck is you
5 similar to what folks ahead of you said, so don't feel
6 like you have to be different. The idea is to sort of
7 get some of the themes of reactions.

8 So I'm going to work from the participant
9 list. I've been going from top to bottom, bottom to
10 top. I think I'm at bottom to top this time, so what
11 that means -- and by the way the participant list if
12 you've noticed is alphabetical by first name. So if you
13 could figure that out.

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

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

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

23 I think Dalia had made comment at a previous
24 meeting that people need to say what they're going to do
25 and do what they say. So I think that the focus on

1 that in the circumstance that the Commission moves
2 forward with that, you know, addressing each of those
3 principles that Joe laid out, you know, would be
4 effective.

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

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

20 I think what the Commission is hearing is that
21 there are -- there are things in the environmental,
22 social and governance universe that are considered
23 material, even if they don't represent quantitative
24 risks, and how to capture a disclosure regime that
25 balances the ability to not overburden people with

1 lengthy disclosures but to reconcile it with those
2 common sense goals.

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

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

10 Thank you, Ed.

11 MR. BERNARD: Great, thanks.

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

14 Keep going. Russ Wermers.

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

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

23 I'll just offer one bit of scientific evidence
24 for Gilbert, for the D&I panel, which is Denis Sosyura
25 at Arizona State University's Department of Finance has

1 think that was a great panel.

2 ESG, ESG is going to grow and grow and grow
3 and become more important to issuers, to asset managers,
4 and to investors. So it's critical that we are
5 thoughtful, that we get it right. There will be more
6 scrutiny from regulators and clients around the topic.
7 So it's very important for us to be focused and
8 thoughtful, and I think the subcommittee did a great job
9 pulling together disparate opinions, and it sounds like
10 there's more to come there.

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

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

25 Those are my observations for the day.

1 a paper that shows that mutual fund managers --
2 empirically shows that mutual fund managers who had poor
3 parents, who had unwealthy parents, performed better
4 than other mutual fund managers.

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

11 I'll stop with that, Ed.

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

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

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

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

1 MR. BERNARD: Great, thanks.

2 Rama.

3 MR. SUBRAMANIAM: Thanks, Ed.

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

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

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

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

25 So I don't know whether it's just a lumping of

1 emerging managers with minority managers that is part of
2 the problem. But, you know, it was very interesting to
3 hear from all of the minority managers and their
4 perspectives, especially as you start to get some size.

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

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

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

21 MR. BERNARD: Great, thanks.

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

24 MR. LUDT: Yes, thank you, Ed. Sorry, I got
25 pulled away there for a second, so hopefully I'm not

1 repeating too much of what has been said.

2 As I think about kind of the three sessions
3 that we had today certainly again great input and great
4 conversation around the private markets conversation and
5 the ESG conversation.

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

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

20 MR. BERNARD: Great, thanks.

21 Paul.

22 MR. GREFF: Thanks, Ed. All three committees
23 were great today as usual. You know, I'll call several,
24 what you guys were getting to close making actual
25 recommendations. You know, I think it's important that

1 it appears that the SEC, you know, requiring disclosure
2 and transparency to be -- to have the greatest impact.

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

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

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

16 MR. BERNARD: Thanks.

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

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

22 MR. BERNARD: Yes.

23 MR. HATHI: All right. I'm hearing like every
24 third person I think, so unfortunately this may be
25 repetitive as to what you've heard already.

1 But first of all I agree with the sentiments
2 offered (inaudible) again was just excellent. You know,
3 one of the things that occurs to me as we go through
4 topics often is that we talk a lot about disclosure, and
5 maybe because I spend time thinking about how we make
6 disclosures simple and understandable for investors. I
7 often worry that this volume of disclosures that we talk
8 about can be overwhelming and difficult for (inaudible).

9 And I don't even read things, whether it's
10 about ESG or, you know, private investments and finding
11 the guardrails, how do you do these things in a way
12 that's understandable. So it's just a theme I think a
13 lot about as we go through these various topics.

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

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

24 MR. BERNARD: Actually, we're losing you. So
25 we'll call it there.

1 Mike Durbin.
 2 Okay, great, thanks.
 3 MS. HATHI: I'm not sure if you can hear me,
 4 but I'll try one more time.
 5 MR. BERNARD: The last ten seconds, Neesha.
 6 MS. HATHI: And I'm (inaudible) the last thing
 7 I'll just say on the private investing that the other
 8 thing, I think it was Dalia who made this comment around
 9 looking at existing framework and existing models on how
 10 we might be able to create some opportunities for
 11 alternative (inaudible). I think it's a really
 12 interesting and potentially a nice way to step into the
 13 opportunity for a more mass retail market.
 14 MR. BERNARD: Mike.
 15 MR. DURBIN: Yes, thank you. Neesha, I'm glad
 16 you came back, so I'm going start right where you left
 17 off on the private investments discussion first and
 18 foremost and take them each in order.
 19 I thought it was a great discussion. I really
 20 like, Scot Draeger, you flagged it also, called it
 21 guardrail. So I love the design principles sort of
 22 basis, though, that you laid out there. I think there's
 23 a lot of leverage there. I'll come back to that in D&I
 24 also.
 25 But, Neesha, I agree, I think whether Chair

1 beyond, you know, the AMAC, just, you know, the
 2 subcommittee or we all may want to draw upon if we think
 3 that that sequence is really important to solving this.
 4 But well done overall. Thank you.
 5 MR. BERNARD: That's a great question and I
 6 told Michelle I'm making a note there so --
 7 In fact, Michelle, you're up next.
 8 MS. McCARTHY BECK: Okay, terrific. Thank
 9 you.
 10 So, you know, echoing I really enjoyed all
 11 three panels. I found it a really rich discussion
 12 today.
 13 With the ESG panel, I really appreciated the,
 14 you know, just with that point of having potential
 15 recommendations. It really solicits the, you know, real
 16 -- really great feedback that we can take onboard and
 17 figure out what the final looks like.
 18 Because the issues raised were incredibly
 19 important issues and it's -- we've gotten out of vague
 20 generalities and now we're pointing towards a few more
 21 sharper things and that's when it comes into greater
 22 focus. So I appreciate all the feedback from the
 23 committee, from the Commissioners, and from Dalia Blass
 24 as well.
 25 With the private investments the direction

1 Clayton or Dalia, your comments or questions,
 2 recognizing they're yours alone, I think that the
 3 Commission exposed, you know, some interesting pathways
 4 here for us to, you know, pick up on in the private
 5 investment discussion.
 6 If I could get to D&I, it's such a vast and
 7 critical topic with an appropriate sense of urgency. I
 8 encourage us to surface design principles, you know,
 9 around where can we, you know, impact and as quickly as
 10 possible to begin the, you know, sort of narrow the
 11 focus and really our accountability here around the
 12 focus.
 13 But, Gilbert, continued kudos that you and the
 14 full committee for, I mean, amazingly, you know,
 15 bringing to light with the appropriate sense of urgency
 16 and vastness of the topic. Well done.
 17 And on ESG, outstanding work as usual. I was
 18 really struck by what I think I hear is the sequencing
 19 advice of the subcommittee, which is issuers before
 20 product, you know, sort of managers for the product
 21 world if you will, the buyers.
 22 And really I guess, Ed, at least maybe a
 23 question of, you know, is the subcommittee or is the
 24 AMAC, you know, best suited alone to tackle this issuer
 25 side of this given of course the sequence (inaudible)

1 that was being set forth on what kind of vehicles would
 2 work, I really appreciate seeing that work developed.
 3 It's been something that's been discussed in a few
 4 industry groups this year, especially post the COVID
 5 market gyrations that took place.
 6 Is there room for another vehicle, one that
 7 doesn't expect daily liquidity, or are closed end funds,
 8 you know, a vehicle that also produces that sort of an
 9 impact? But the idea of something where -- the problem
 10 with sleeving and creating vehicles that have an
 11 illiquid sleeve is after a large event that sleeve isn't
 12 so small anymore and many of those events can lead to
 13 that forced selling of something that can't be sold.
 14 There's a chance of it.
 15 So the idea of other kinds of vehicles are
 16 very interesting to explore, where investors are taking
 17 a liquidity risk, and then they can have access to the
 18 assets that are beneficial if you're willing to take a
 19 little liquidity risk.
 20 So I look forward to hearing where you end up
 21 with on the vehicles and that was where my mind was when
 22 -- I'm thinking of several discussions I've been party,
 23 been able to listen to where people were talking about
 24 the role of mutual funds and what are the best assets to
 25 have in daily liquidity vehicles versus -- and that

1 doesn't mean the other one should be left out in the
2 cold.

3 So thanks for that.

4 MR. BERNARD: Great, thank you.

5 John Suydam.

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

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

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

1 real I think issue there in needing the information but
2 also making sure that that information isn't
3 overburdening and is serving a real purpose,
4 particularly when we're also hearing, you know, as we go
5 through much of this about the market to public
6 companies has been shrinking. You know, if we lay too
7 many additional obligations do we create more of a
8 problem in that respect.

9 MR. BERNARD: All right, thank you.

10 John Bajkowski.

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

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

24 Closed end funds were something we looked at.
25 There are restrictions now as far as access to qualified

1 investors, but it sounds like the SEC is doing some work
2 in that regard now. But the closed end funds are a
3 great avenue where the redemption risk is on the
4 secondary market. There's a strong disclosure framework
5 currently to help indicate some of the risks and
6 disclose the fees that are being charged as well.

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

14 MR. BERNARD: Great, thank you.

15 Joe Savage.

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

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

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

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

8 MR. BERNARD: Okay, great. Jeff Ptak.

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

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

22 I feel like with target date funds, this is a
23 note I might have sounded previously, I feel like that's
24 been maybe one of the more successful innovations that
25 we have seen in the defined contribution and mutual fund

1 world in the last couple decades. One of the things
 2 that's really prevailed there has been the simplicity of
 3 it. It's an all in one solution with auto everything
 4 involved.

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

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

18 MR. BERNARD: Great, thanks.
 19 Jane Carten.

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

23 The way that I was looking at it today is just
 24 sort of where are we on the spectrum of change in
 25 progress on the issues that we're addressing. It seems

1 to me that with respect to private investments we're
 2 still between sort of precontemplation and
 3 contemplation, with the idea of some kind of chaperoned
 4 access into private equity markets for retail investors
 5 gaining some momentum.

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

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

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

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

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

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

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

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

14 MR. BERNARD: Thank you.
 15 And Gilbert.

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

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

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

4 On our own committee, I mean, look, I think
 5 it's -- I mean, I'm biased, right. I think it's great.
 6 Something must be going well because every day you read
 7 about some new thing happening. I have my phone blowing
 8 up with people saying all kinds of things about it.

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

14 MR. BERNARD: Thank you.

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

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

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

25 I also share the concerns about liquidity,

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1 what is the proper way to measure the performance and
 2 benchmarking. I think one thing we ought to look at and
 3 think through is there's a lot of research that shows
 4 that private equity returns can be replicated using
 5 liquid instruments.
 6 For example if you, if you decompose private
 7 equity or private markets returns a lot of those have
 8 small cap exposure, quality exposure, and value
 9 exposure, and can be replicated using those instruments.
 10 So that's something, you know, in terms of whether it's
 11 benchmarking, or thinking through liquidity, something I
 12 would like to see a little bit more as we think through
 13 the benchmarking issues and the liquidity issues.
 14 That's around private markets.
 15 On the ESG, you know, I'm a little bit biased
 16 because I'm part of the subcommittee, but I will fully
 17 admit that there's a lot of work that needs to be done
 18 to understand. When we think about ESG, where we want
 19 to be ten years from now, we want ESG to be on a
 20 standalone basis just like value investing or just like
 21 close, or quality, or what have you, and be able to
 22 decompose the returns and know exactly what kind of
 23 steps and the positions some managers take and what
 24 exactly contributed to returns of those ESG strategies.
 25 Especially when we look at this year during

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1 COVID-19 crisis, a lot of the ESG strategies
 2 outperformed. But there's a lot of exposure to growth
 3 style stock, the mega cap technology names, and we want
 4 to be for the -- for the sake of the investors, the
 5 retail investors, we want to make sure that their values
 6 are aligning with value and they are exactly getting
 7 returns from ESG and now from loading up on the tech
 8 names.
 9 So that's something I would like to see.
 10 Maybe we're not ready today, but we maybe ready five
 11 years from now, and ten years from now, and we would
 12 like to get there.
 13 As for D&I, I'm in big favor and I think the
 14 country, somebody mentioned that the country is at an
 15 inflection point of taking social issues into
 16 consideration and being inclusive. At the same time I'm
 17 still reconciling and trying to process the role of the
 18 regulator, you know. I can see the board of directors
 19 and the investors demanding -- and the allocators, you
 20 know, having these D&I factors into consideration.
 21 But I'm still uncertain on the role of a
 22 regulator in mandating. So that's something for me to
 23 understand more and learn more.
 24 SUMMARY AND DISCUSSION.
 25 MR. BERNARD: Great. Well, thanks. Before I

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1 ask Dalia for any last comments she's got, just a couple
 2 of things from me.
 3 Number one, it just amazes me the talent and
 4 the commitment of this group and the work that's done
 5 here by this -- I'm going to speak the committee, I'll
 6 thank the staff in a moment.
 7 I will tell you it's extraordinarily humbling
 8 to sit in this chair and be a part of all you're doing.
 9 I will tell you, as those on the subcommittee know, I
 10 tend to frequently sit in on subcommittees as well as
 11 this committee, and I learned something -- well,
 12 actually I learn lots of things in every single
 13 conversation.
 14 So you all have plenty going on in your day
 15 jobs, so thank you all for carving out time for this. I
 16 think you can see from the kinds of discussion today,
 17 the kind of interaction we've got with the Commission,
 18 that we're doing important work and that we have the
 19 opportunity to help the SEC make progress on some of
 20 these issues.
 21 To that point my only comment on the day would
 22 be, and I'll pick up a little bit on what Jane said
 23 about the different stages of work for the committees.
 24 I think the principal approach or the guardrails
 25 approach that we're taking in a number of these makes

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1 good sense. At the end of the day we're going to make
 2 recommendations and the SEC is going to have to evaluate
 3 them and decide whether and how to act on them. I think
 4 we need to provide some room with some clarity of
 5 direction as well.
 6 I don't think it's any surprise that all of
 7 the issue we've taken up could be characterized as
 8 complex. I think the teams have done a great job of
 9 breaking down that complexity.
 10 The one observation I would make is as we get
 11 close to final recommendations, as we did with PTP, the
 12 operational issues, and this will call on our SEC
 13 colleague, the IM team, again is that we make sure we
 14 sort of find the points where it meshes between our
 15 principles and the details of the constructs that are
 16 already in place with SEC rules, with SEC, you know,
 17 sanctioned products and so forth.
 18 So I think we'll be calling on the IM team to
 19 help us make sure we got clarity on that, so that we
 20 don't make a recommendation that just doesn't make sense
 21 in the context in which it's intended.
 22 And the final comment I'll make, and I'm being
 23 wordier than usual today, because we're now at the point
 24 where we're getting to some recommendations that we can
 25 see reasonable people will differ on.

1 I would observe two things. One is everyone
2 of our committees and this full committee in discussion
3 is very thoughtful in balancing its approach. My sense
4 is that these, the kind of subcommittees, have operated
5 with the courage of their convictions and I would
6 encourage us to do that.

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

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

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

1 I hope -- I know you know your way around London, but I
2 hope when you get there you won't have to quarantine too
3 long.

4 MR. LUDT: We're still trying to figure that
5 out, but thank you very much. Thanks to everyone on the
6 committee here, thank you to Dalia and her team, and to
7 the entire Commission. It's been fantastic. I really
8 look forward to the work that you all continue.

9 Please know that it's going to be late in the
10 evening when I'm dialing in to hear how these things are
11 going, but I'm going to be following on the other side
12 of the weblink for sure.

13 So thanks very much. Nice working with you
14 all and I wish you all the best. Keep it up.

15 MR. BERNARD: Great. Let me reiterate my
16 thanks to the Chairman, to the Commissioners, to Dalia,
17 and in particular I want to echo what Dalia just said to
18 Christian and the team, Jay, and Angela and so forth. I
19 mean, it's just amazing the amount of work they do to
20 support us.

21 With that I've got -- I only have one
22 housekeeping detail after you, Dalia, but any comments
23 you have on the day?

24 Closing Remarks - Blass.

25 MS. BLASS: Thank you, Ed.

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

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

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

22 And John Suydam, you also mentioned, you know
23 the burdens of disclosure and, you know, getting that
24 balance right to make sure that we're not just adding a
25 cost and not making sure that we are, you know, thinking

1 about the burdens on the public companies and, you know,
2 given how many of them are, you know, coming, becoming
3 public at a later stage and the pressures in that
4 market.

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

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

15 On diversity --

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

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

25 I know that it's a learning opportunity for

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

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

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

20 MR. BERNARD: Great, and all I have at this
 21 point is we obviously have not scheduled our first
 22 meeting. I mean, in theory we have four meetings a
 23 year. In theory they were going to be in person in
 24 Washington. So far we have one out of six in person in
 25 Washington. I'm not going to be the one to try and

1 predict the next time we'll have an in person meeting.
 2 I'm going to make an effort with Christian and
 3 the team to get some dates up on the calendar for next
 4 year. I think realistically we can sort of -- let's
 5 just assume the first one is likely to be early March-
 6 ish.

7 One of the key factors we've looked at when
 8 we've scheduled is ensuring the Chairman or the Chair
 9 I'll say is available, and that's a little ambiguous at
 10 the moment. So we'll see if we can -- we may try and
 11 put up four dates, but in any case expect to hear from
 12 the staff soon about trying to get some dates on the
 13 calendar just so we can block the space for next year.

14 Expect to hear from me, probably not in the
 15 next week or so, but soon. I've been having
 16 conversations with various folks, you know, getting
 17 input from you. I'd like to come back to the whole
 18 group with some thoughts about additional issues that we
 19 might put on our plate for subcommittee work in 2021 as
 20 we begin to finish some of the work that we're already
 21 doing.

22 So I'll just ask you to look out for that and
 23 when I do that please give me your best thinking. By
 24 all means, as we always do, you represent yourself and
 25 your firms, so by all means circulate that and get input

1 from those who you think appropriate.
 2 And with that I would thank everyone again for
 3 the day and wish everyone a happy year end, and holiday
 4 season, and a very safe one as well in these difficult
 5 times.

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

10 A PARTICIPANT: Thanks, Ed.
 11 A PARTICIPANT: Thank you.
 12 A PARTICIPANT: Thanks, Ed.
 13 (Whereupon, the meeting was adjourned.)
 14 * * * * *
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