

## State Street transcript edit for ESG Roundtable podcast

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### **Richard Lacaille**

My name's Rick Lacaille, I'm the Senior Investment Advisor at State Street and I lead State Street on ESG matters for the corporation and for its business unit.

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We've seen enormous growth in the private side as a result of two forces, one is demand side growth, many investors around the world are demanding more from their portfolios because there's a perception and perhaps a reality that government bonds and listed securities are not going to deliver the long-term returns that are required against the liability mix and so people are taking more risk and particular in private equity.

And as we've seen the growth of ESG we've seen, you know, many challenges, one of them is data problems.

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One of the surveys we did recently found that three out of four alternative managers said that reporting and analysing ESG data is going to be one of their most important things to focus on in the next three years. But equally 70% of those alternative managers also recognised that they weren't where they needed to be, and they actually needed to spend more money. So it is a little bit of a conundrum.

I'm going to start with Evelyn, just for a very, very broad overview of the topic, because she sees everything from a global perspective. When you look across private markets you look at these different forces, demand and supply, the regulatory interest, this interest in ESG, what do you think are the main forces at work that are influencing the growth of those asset classes and the practices within them?

### **Evelyn Lee**

I think prior to COVID there had been a focus on sustainability, you know, from an environmental perspective, diversity, but the attention to a lot of these issues really ramped up with the pandemic, because it exacerbated a lot of the issues that were already ongoing or underway before COVID, but they just were further highlighted.

I think COVID for example further exacerbated the gender and economic inequality. And for a lot of investors, or private markets firms, they wanted to feel like they're doing their part and kind of address diversity at their own firms, whether it's by staffing, or investment to kind of help to contribute to the solution as opposed to contributing to the problems.

### **Richard Lacaille**

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I'm interested in diversity, because you know the asset management business is guilty of lecturing everybody else about diversity but when you look at the composition of our industry it's poor and it needs to improve.

Are private markets any different, is there any scope, I mean Gennell I think you pointed out that there are many public funds in the US who are now expecting that their investment teams, whether it's public or private will be more diverse. And I know because I've spoken

to some of the fantastic GPs in the US who've come from diverse backgrounds, phenomenal performance and phenomenal people. Is that becoming a more significant force that will actually change the nature of investment as well, as well as being diverse in its own right?

**Gennell Jefferson**

I think so. I think that's definitely intensifying the request to ensure that there is a diverse pool of talent on the asset managers team, that's the steward of those dollars. You know not only from an economic standpoint, obviously you know more diverse perspectives generally tend to produce better outcomes. But again, from a you know social and economic justice perspective to give a broader slate of folks opportunities in these industries. And a number of diverse managers that started out at large scale platforms have then spun out with the idea of creating exactly those opportunities for a more diverse set of highly qualified professionals.

So I think you're going to see increasing focus on what the profile of the asset manager is, especially from public pension plans, who are increasingly focused on ensuring that the people that are managing the money is reflective of the beneficiaries.

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**Richard Lacaille**

And in the real estate sector, again back to Evelyn and Jan I'd be interested in your view as well. Are we beginning to see - not that it's evolving into a sector, but there's a specific demand in real estate to reflect some of the issues that we've talked about in terms of diversity, whether it's community reinvestment, or low-income housing, or other things that are helpful in terms of, you know solving some of the challenges that are very obviously in front of us?

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**Jan Straatman**

I would say it's basically on both levels. You have on the one hand let's say for individual projects there is an increasing focus on, okay, how do we integrate ESG requirements into the project. And on the other hand, you also have a big push towards, let's say, shifting from general real estate to more real estate themes which are backed up by kind of ESG and SRI themes in general, looking at social housing, looking at certain areas of the real estate market which are more interesting and offer more opportunities from that perspective.

I think the private market has been slow for various reasons and those reasons actually still exist. I think that COVID actually has been a slightly different situation where the fact that as a private investor you can respond much more quickly towards changing opportunities than you can on the listed side has offered an opportunity during the whole COVID period.

If I look at our own situation, at Astarte, we have been a growing company fairly quickly with a strong focus on ESG and SRI, but because of everything that happened around COVID it has become much more at the forefront and allowed us to push much faster into developing the platform that we have.

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**Richard Lacaille**

And Evelyn, you have given us a global perspective, are you seeing this - either community reinvestment or thinking about how communities can be supported during a period like

COVID dealing with inequality. Is that becoming, again, more of an important driver in real estate plans?

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**Evelyn Lee**

Yeah, I mean I think that you have seen more products coming out, especially if managers are putting together products that are focused on impact investing, or responsible investing and they are often housing related. That will mean either affordable - you know projects with an affordable housing component or projects that would seek to benefit, you know, underserved disadvantaged communities.

I don't feel it's really become mainstream though, not from what we've seen in terms of the fund launches and fund raises.

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**Richard Lacaille**

Maybe I can ask Maria, that question of greenwashing comes up, maybe you allocate to external managers, but even if you don't you certainly see what they're doing, and you've got your own viewpoint and your metrics. You mentioned industry benchmarks that you're using within the private framework. Does that help you to understand the risk of greenwashing and to avoid the pitfalls?

**Maria Clara Rendon**

I feel that regulation has - regulation also helps or facilitates out of regulation. So even if - now that information is out there and everyone has access everyone has access now for example with SFDR or more regulatory frameworks that could be developed around the globe, investors will be more careful about the information that is becoming public, because there will be more scrutiny.

And there I think that that is important. Now everyone will be being more careful, but that is one piece related to regulation.

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**Maria Clara Rendon**

And I think it will be interesting to follow the discussion about the scope of level 2. And I feel that that is going to be the basis of all the regulations around the world. Because one concern that I am seeing in the industry is the risk of a proliferation of different regulations that will create confusion or cumbersome work to comply with all the different requirements. I feel that that is also why everyone is looking to see what happens with the EU Taxonomy, acknowledging that there might be some differences by geography, but at least having a common ground to have discussions at the jurisdictional level.

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**Richard Lacaille**

In terms of size and scale Vincent, do you see differences, for example, in our client base between the large and small in terms of their approach or willingness to explore these issues and their management of data as well, is data a problem for them and not a problem for the huge ones, or is it a problem for everybody?

## **Vincent Georgel-O'Reilly**

I think we can see that the large ones are really maturing their approach. And I think again it probably comes with their client base on the LP side, who have a significant of pension funds and insurance, so they are very, very acquainted with ESG problematic and it's part of their investment strategy, even the most mature ones - I would say it's a big differentiator in their investment strategy.

I think you start to see that a lot on the infrastructure side, where there is this - you know the E on ESG is one of key differentiators to generate returns on the long term.

For the medium sized ones I think there is a need for them to get there and they do realise that, and I think that's where they are probably looking at us to take the lead and to outsource that problematic to us to help them to get there in terms of tracking and making sure that there is like a common standard across our client base.

But I would say that in general it's definitely a subject that is taking more and more momentum. And I would say that the few managers who are not putting that on their agenda today would be outliers and I would be pretty sure that they will not be as relevant in a few years as they are today.

So I think the return around ESG is going to be key and the most mature ones are definitely riding the trend and taking a significant advantage on that today.

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## **Richard Lacaille**

Well we've drawn to the end of our session, I've enjoyed meeting and talking with all of you, it's been fantastic. Thank you so much for your contributions and the cross talk that we've had on a whole variety of subjects and kind of teasing out what those interesting issues are.

ENDS

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