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James P. Gorman
Chairman and Chief Executive Officer
Morgan Stanley

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Webinar

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Chairman, The Economic Club of New York
President and Chief Executive Officer
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Introduction

Good afternoon everyone. This is Barbara Van Allen, President of the Economic Club. Thank you for joining us today, and we are going to get started at exactly 2:00. Thank you.

Chairman John C. Williams

Well, good afternoon and welcome to the 569th meeting of The Economic Club of New York in our 113th year. I'm John Williams. I'm the Chairman of the Club and President and CEO of the Federal Reserve Bank of New York. The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues. This mission is as important today as ever as we continue to bring people together as a catalyst for conversation and innovation. And we proudly stand with all communities seeking inclusion and mutual understanding.

I'd like to take a moment to recognize those of our 312 members of the Centennial Society as their contributions continue to be the financial backbone of support for the Club and help enable us to offer our wonderful, diverse programming now and in the future. A special welcome to members of The Economic Club of New York 2020 Class of Fellows – a select group of rising next-gen business thought leaders – and I should note that applications for the 2021 Class are now open. So any member interested in

nominating a fellow can visit our website for more details. I'd also like to welcome graduate students from Gabelli School of Business at Fordham University and the Graduate Center at City University of New York.

Now it's an honor for me to welcome our special guest today, fellow Economic Club of New York member and Chief Executive Officer of Morgan Stanley, James Gorman. James became CEO in 2010 and Chairman in 2012. He joined the firm back in 2006 and was named co-President in 2007. And before joining Morgan Stanley, James held a succession of executive positions at Merrill Lynch. Prior to this, he was a senior partner at McKinsey and began his career as an attorney in Melbourne, Australia.

Among his civic activities, James serves as a Director of the Council on Foreign Relations, Chairman of the Financial Services Forum, Co-Chair of the Board of Overseers of the Columbia Business School, is a member of the Business Council and the Business Roundtable, and most importantly he serves as a member of the Board of Directors of the Federal Reserve Bank of New York.

He formerly served as President of the Federal Advisory Council to the Federal Reserve System, as Co-Chair of the Partnership for New York City, Chairman of the Board of the Securities Industry and Financial Markets Association and Co-Chairman of the Business Committee of the Metropolitan Museum of Art.

James was born in Australia, earned his B.A. and law degree from the University of Melbourne and an M.B.A. from Columbia University.

Today the format is a conversation. I'm very pleased to be able to join James in moderating this conversation. We'll end promptly at 2:45 as always. And some questions were sent in, in advance. I've got those. I've included those in the questions that I'll bring up with James. As a reminder, this conversation is on the record and we do have media on the line.

Conversation with James P. Gorman

CHAIRMAN JOHN C. WILLIAMS: So with that, James, welcome to this discussion. I've been looking forward to hearing your views. So thanks again for joining us today and I'd like to start off right away with how do you see the economic outlook, both in the United States but obviously from your firm – it's a global firm – how do you see the global economic outlook in the midst of the pandemic?

JAMES P. GORMAN: Well, John, thank you and thanks to The Economic Club of New York for having me. And I'm not sure, given you're one of the world's leading economists, that I could tell you anything enlightening about the economic outlook, but

I'll certainly give you my view. I mean we're in very, very uncertain world. We've had, you know, it's a most unusual environment when you've had health uncertainty, social justice uncertainty, obviously economic and political. We still are in some throws of political uncertainty until the election is finally resolved and all the votes counted and we have resolution there, but that seems to be coming to a close.

You know, on the economy itself, until we have a widely distributed vaccine for Covid, the economy is not going to fully recover, and even then it's going to take a long time. As you well know from your work, the damage to small businesses and individuals' balance sheets has been profound and in certain industries it's going to take several years to recover. That said, we are recovering. You saw, obviously the GDP numbers are encouraging. We certainly need more fiscal action to accelerate the recovery and hopefully the parties can come together and make that happen. The Fed has done its bit.

So, you know, but I'm not expecting miracles here. This is going to be a couple of hard years. Certain parts and industries and geographies are going to struggle for longer. But we have turned, and I felt the worst was back March and April and I think I said that publicly – and so far thank goodness I've been right – we've turned from the worst but it's a long haul as you well know.

CHAIRMAN JOHN C. WILLIAMS: And you're seeing a huge increase in Covid cases in Europe and in the U.S., while at the same time in Asia, the pandemic seems to be under better control. So what are you seeing in the different regions in terms of the economy, both what are you seeing in Europe and how do you see the prospects there and then talk a little bit about Asia as well.

JAMES P. GORMAN: Well, it's interesting. I mean certainly behavior seems to be driving how these resurgences are occurring, or second or third waves. The discipline, and anybody who has traveled to Asia – which I've done, you know, hundreds of times in my life – knows that when you go through any period of health stress, folks wear masks. They just do it. Even when there's no health stress, a lot of people if they're feeling unwell wear a mask as a courtesy to their fellow citizens. So the concept that we'd operate in this country without people wearing masks in public when we have a highly transmittable virus is frankly just bizarre. And we're suffering the consequences of that. And as the weather gets colder, more people are inside and our discipline slacks off a little bit and that's why it's occurring.

What impact it will have, I mean in the short run it clearly hurts the small businesses, the restaurants, small businesses that have been under a recovery phase because it sets them back. Longer term, as long as we get the vaccines that now Pfizer and Moderna and others are looking very promising on, longer term it may not have much impact, this

second wave. The real issue is the tax on the hospital systems and their ability to deal with the cases, the surging cases coming through. Thankfully, a lot was learned through the hospital system. We're close to Columbia Presbyterian system here that has done an amazing job. They've gotten a lot better, a lot smarter about managing this. But that's the real issue, I think it's the health issue more than economic with the second wave.

CHAIRMAN JOHN C. WILLIAMS: You mentioned the vaccines and obviously the treatment in hospitals and healthcare more generally. One of the things I've studied a lot in my career is how financial markets respond to economic developments and news. And, you know, we get these huge swings in GDP and employment which are, you know, orders of magnitude larger than what we're used to. The market kind of shrugs it off but when you get news on the vaccines, the market reacts extraordinarily strongly. Can you talk about how you understand both what's happening in the markets and how the markets are trying to figure out what the future holds, especially in the context of vaccines and treatments?

JAMES P. GORMAN: Well, imagine a world, John, where we never get a vaccine. Imagine a world where this virus mutates into a more dangerous threatening virus, particularly for younger and healthier individuals. Both very, very dark scenarios. It doesn't matter how much government fiscal stimulus is thrown at this. It doesn't matter

how much rate cutting that they can do, and it's about zero right now. You can't overcome that insurmountable problem of people not being able to do their basic jobs and operate with full functionality, whether it's in the tourism or transportation sectors, or you name it.

So I think what the markets are saying is, listen, the necessary steps are obviously for the Fed and for the governments to employ whatever fiscal and monetary tools they have but the precondition of that has to be an environment where those tools can be effective. And that has to be a world where we see a possibility and a probability increasingly of widely distributed vaccination so people can get about their business and the economies can recover.

So I'm not totally surprised the markets, I mean the GDP number was extraordinary. It was off obviously a lower base it needed to recover. I'm not surprised by that. But I think what the real root cause here is, is this a solvable virus or not? And I think the market, when they saw those numbers coming out of the Pfizer trials, was incredibly encouraged, you know, as it should be.

CHAIRMAN JOHN C. WILLIAMS: If you go back to March and April, you know, clearly we had enormous volatility in the markets here and globally, showing up in equity markets, fixed income, you know, all the markets. Given all the turmoil at the time, have

you been surprised how kind of quickly markets healed and you see this in terms of, you know, IPOs, in terms of market pricing and things like that. Just kind of, what's your view on the market dynamics of the year 2020?

JAMES P. GORMAN: Well, you know, I was more surprised at how well the markets functioned during that period of incredible volatility. I mean take Morgan Stanley, we're the largest equities business in the world, we're one of the largest fixed income banking and wealth management businesses in the world, so we're managing multi-trillion dollars of clients' money, we had 95% of our employees working from home. And we had record volumes. I think we had the ten largest trading days we've had in history by a factor of 60% higher than the 11th largest days.

So when you put those numbers together and say now everybody is working at home, incredible volatility, how are things going to hold together, you would have to have been stunned by the result, not just here but across the financial institutions globally. Really impressive and a lot to be said for the business continuance planning and other efforts that have been put in place over the last couple of decades. So that was the good news.

You know the fact that the markets are responding and recovering and volatility has come down, it's all part of do you believe that we saw the worst in March or April in the impact of Covid on society or not? Do you believe we're closer to finding a vaccine or

not? If you believe those things, the markets will start to normalize. Now within it, there are clearly, on the equity side, look at some of the sectors. You've got the sort of stay-at-home beneficiaries, if you will, that have exploded. And you've got those that are not and are highly subject to personal interaction, like the airline sector for example, that have had a terrible run of it.

So you've got, within the market you've got incredible winners and losers at the moment. You're going to see some shift from growth to value as some of those losers, everybody looks at the numbers and says, well, this is not going to stay this way for ten years. It may for another year. It may for 18 months. It's not for ten years. At what point do you buy into that ten-year story? And I think that's what we're seeing. So the instability on one side is being offset by stability on the other side and some rotation through sectors. Obviously the Fed doing what it's done, you know, I think the Fed, not to pat you on the back, but I think what the FOMC has done and the Federal Reserve System has held up extraordinarily well during this period. And it's done everything it could during that tough period to facilitate market liquidity and I thought that was essential.

So now if we can get a political solution to the next range of stimulus, then I think that together with the promising readouts of the early tests on the vaccines, it positions us for a much better future for 2021 and '22.

CHAIRMAN JOHN C. WILLIAMS: So you mentioned the uncertainty at the beginning. I think you mentioned a number of ways that we're dealing with uncertainty. One of the questions that was sent in from a member was around trade policy. And that's clearly been an area of a lot of change and flux over the past few years. I mean as the head of a global firm, how are you thinking about how trade policy may evolve going forward?

JAMES P. GORMAN: Well, in some ways, you know, the whole story before Covid hit was all around trade policy. That's where the economic, global economic tension was and the challenge to globalization was. You know if you think about it in round numbers, the global economies are about \$70 trillion. The U.S. is about \$18, China is about \$12, just rough numbers, so call it 45% of global economies between China and the U.S. If they're at trade war with each other, that cannot be good for anybody. So that was the period that we were in. It was certainly, you know, the challenge to the Chinese from is it really a developing nation, does it deserve preferred status in some of the trade agreements that have been set in place ten and twenty years ago given the size of their economy? And I think there was some re-balancing and it wasn't just the U.S. and China. It was Europe to China and within the Asia region.

But ultimately we need functional, not dysfunctional relationships between the largest trading partners for the benefit of the whole globe. And that's what, you know, we're

obviously in a new political cycle now. We'll have to see whether that, how that plays out. But the first challenge is get past the Covid period, then trade will loom very quickly. That will be what's coming through on the horizon there.

CHAIRMAN JOHN C. WILLIAMS: So we could keep talking about the economy and the financial markets and all these for the whole 45 minutes, but I do want to turn to investment banking and specifically, you know, Morgan Stanley's kind of evolution during this recent period. So what's your view of the evolution of investment banking in the world today? And how do you see the evolution of Morgan Stanley in that context?

JAMES P. MORGAN: Wow, that's a, we can spend a lot of time on that. I've spent my life thinking about that. You know the investment banking world has gone through, if you look at the last 30 years, a pretty extraordinary period. Private partnerships became public companies so suddenly you're using somebody else's capital. That's a nice thing if you can use it wisely. A lot of global banks wanted to build out, particularly their macro side in rates and foreign exchange. That bled into equities. That bled into advisory businesses. So global banks either buying investment banks or building investment banking capability. Think of Credit Suisse and First Boston. I think the first was Deutsche Bank and Bankers Trust, UBS and Warburg and you can go down the list.

So the investment banking world has gone through some pretty major structural

change. But what it was exposed for during the crisis, which is where Lehman and Bear and a lot of institutions, including our own, was severely challenged, was the business model, if it's so market-dependent and so much exposed to liquidity risk – let alone capital risk – it's uninvestable at some level. And that's what the crisis proved. So a lot of institutions, and I don't want to speak for others, but for ourselves, we determined that we wanted to have, and we are a world-class investment bank, we've been doing it for 85 years, but we needed other forms of stability when markets were extremely stressful, number one. Number two, we couldn't put our capital to work just for ourselves.

So the whole concept of proprietary trading, proprietary investing had to be dramatically reshaped and the Volcker Rule obviously drove a lot of that. But we drove it before that. And number three, we needed to find other sources of revenue that would supplement during difficult times. As I've described it here, we wanted the balance that you get when the seas are really rough, but the engine room, which is the trading and banking and underwriting businesses, when things are going great, those things explode. But our strategy was we want to do fine when things are really difficult. If that means we don't go as fast when things are on fire, so be it. That's the tradeoff. That's insurance on the hedge, if you will, that we've put into the business model. And so far, that's paid off because our wealth asset management businesses are a nice counterbalance to the very active trading businesses which have been unbelievably active this year.

So that's really the business strategy and I think each institution has to think through its strategy in terms of not when things are good or when things are stable but when things are bad. Where are your Achilles' heel when things are bad? And that's what we've tried to do at Morgan Stanley for the last decade.

CHAIRMAN JOHN C. WILLIAMS: And when you think, you mentioned about the challenges in the global financial crisis and the lessons from that, I mean from your perspective – as someone whose led, you know, institutions through the past many years – what are to you the most important lessons – you just spoke to, I think, a few of them – about how to prepare for, you know, kind of helped you prepare for Covid and thinking about the resilience of the firm?

JAMES P. GORMAN: Well, above all if you look at the banking sector and where banks have gotten into trouble over a very long period of time, it's generally through cultural issues. And frankly, it's generally their own management. I've joked sometimes that the biggest threat to the banks are their own management. So I guess I'm talking myself out of a job. But you can do enormous harm if you let culture go astray. And during really strong boom times, it's very easy to do that. And I won't repeat the names of all the firms that have disappeared from our industry in the last 30 years, but it's pretty damning.

So, number one, you have to focus on your culture. It's not just about making money, generating the returns we all want to make, doing the business we want to do, but you have to do it the right way. And this is something which is a constant challenge given the complexity of our business, just the nature of the beast. So I would say the biggest lesson learned is you've got to have a strategy which works in difficult times, not just good times. You've got to have a culture which endures so people make the right decision when the call is a tough one to make. They err on the side of being conservative. And frankly, just take a little risk off the table. Be prepared to give a little back to hedge against the unforeseen.

Now, if you do all of those things and you have good transition to management, deep benches and talent of management, and you build a diverse organization that's inclusive of everybody, you know we've got a real shot at doing our jobs which is to serve the global markets, match issuers and investors, match borrowers and savers. That's basically what we're designed to do.

CHAIRMAN JOHN C. WILLIAMS: You know you mentioned culture and I know we're going to come back to that a bit in a moment, but you know when you look at the challenges of leading a global firm where culture is so important, how do you manage that when the vast majority of employees, I think, are still operating from their

apartments or wherever? And especially when you're adding, you know, new cohorts of employees, how have you managed that?

JAMES P. GORMAN: Yes, it's really tough and I know it's tough for the Federal Reserve System and I know, John, for you at the Federal Reserve of New York to have young people joining your organization that can't physically be there. I mean all those social moments that help people bond, it's like why people when they're texting with each other, sometimes the message gets mis-translated. Oh, I didn't really mean to offend you, I was just having a joke sort of comment. Well, if we're always working remotely, how many times will we misread the body language? How many times will we not cue off, you know, the social indicators that are designed to help build people up, not tear them down?

So listen, we're doing what everybody's doing. We're doing a lot of these calls and ironically it's quite intimate, right? You look into somebody's face two feet away, two feet away from you, so you actually do develop intimacy through Zoom, which I'm trying not to do conference calls but to speak where we have the facial interaction through Zoom. You know all the soft things that you can do to reach out to employees, we were doing daily – operating committee calls. I call personally a lot of employees one on one just to wish them well, see how they're doing. You know you've got to go overboard in making the human outreach because everybody's isolated.

You know I'm in my office today, it's pretty obvious, and I wear a suit and tie when I come into the office because that's how, that's the way I like to work. It doesn't mean everybody's going to work that way but that's how I like to work. But I only come in two days a week because I don't want to have people feel like they need to be at their desk at a moment when they're worried about their health and safety right now. But, on the other hand, I do want them to experience our office space. I do want people to feel comfortable to rip the band-aid off and see the security and the health checks that we've put in place here as you and every other company and organization has done.

So, listen, this is hard on everybody. There are no magic solutions. We're getting to know each other in very different ways but the more contact we can make through Zoom and other venues where we're seeing our faces and humanizing what is a very inhuman and isolating period we're going through, the better off we're going to be. But it's never as good as being physically together.

CHAIRMAN JOHN C. WILLIAMS: So I know you've tried to bring employees back. As you said, you were coming in two days a week and, again, you've got offices around the world. I mean what advice, I guess, do you have for the membership of what's gone well and where are things just hard to get this to work the way you would hope?

JAMES P. GORMAN: So everybody's got a different philosophy. My view is you shouldn't mandate appearances. You know right now we don't have a vaccine. For all I know, employees are living with family members who've got immune issues or elderly family members. I don't want to create a sense of if you're not here, you're not doing your job. I don't want to create a guilt environment.

On the other hand, we've worked very hard to make our facilities user-friendly for people coming in. Each elevator is marked as three people can go in the elevator at one point in time. There's all sorts of, you know, temperature checks and we have Covid testing in our facilities and so on. So I do think it's important to experience it. I choose to be here two days a week because I don't want to have people feel like if I'm here every day, they should be. On the other hand, I'm two days a week every week because I want to be. So it's a balance.

What have we learned from it? My biggest learning is most people who have come into the office have sort of said, thank God, it's okay, I kind of like that. And they're getting a little bit of a kick in their step from being around some colleagues even if it's somebody with a face mask. Outside our office, we all wear face masks when I'm not in my actual office, and they're down the hallway but you're seeing somebody. So don't underestimate the benefit from ripping the band-aid off and just experiencing it. On the other hand, be respectful for people's personal circumstance and don't judge them for

that. When we have a vaccine, that's different. Until that point, leg into it slowly.

I'll give you another example. In Tokyo, we got up to about, I think about 50%, maybe higher, of our employees in our Tokyo office. And in Japan, they're very disciplined as I said earlier, about mask wearing and so on. But then we had an outbreak on one of our trading floors and we had a number of employees affected. We went down to about 15% overnight. So, you know, we got, I think it's more important to leg into it slowly than try and rush into it. Think about it in terms of in the next three months, what would we like to see? Not tomorrow what would we like to see.

CHAIRMAN JOHN C. WILLIAMS: Yes, another leader in the New York area was telling me the story about when their employees were able to come back into the office and they were, you know, it was a very emotional moment because people hadn't seen each other in person for so long, that it was kind of surprising how big that was for people even though we do see each other on camera. You know when you think about New York City and our economy, clearly it's been hit among the hardest actually in the country. We rely so much on tourism, on, you know, entertainment and all the things that make New York City what it is and such a destination from around the world. And all those are kind of held, you know, in pause right now, including restaurants, theaters and museums and things. So as a business leader, I mean what can be done to help get New York City back on its feet as we get through this crisis?

JAMES P. GORMAN: Well, that's probably the reason why I want people to experience coming back into the city. If you read the newspapers and listen to some of the TV people talking about New York City, you'd think the whole place was burning down. It's ridiculous. I've been here almost the whole time since March. I was in my apartment, I think, for 79 of the first 80 days when Covid happened. I live downtown. I'm out on the streets every night. I go for walks and exercise and stuff. Listen, New York's not great but, you know, I was here in the 80s and I've been here since the 80s and it's a lot better than the 80s, let me tell you.

So, you know, I think we've just got to help people get through this period. You know we've just started an initiative working with 2,000 food carts in New York City we're going to help financially. You know, and I said to our team, let's, you know, charity begins at home and let's help the people and the food carts around Times Square and then across the whole city, let's help them get through this. Let's help the Broadway community get through this. Let's work with the local restaurants. Let's, you know, bring our charity down from big corporate stuff to very local. And I think if we do that, this city is resilient, it'll come back. I have no doubt about that. But it's got about another 12 months of pretty severe hardship. And we all need to do our bit, both personally, but also with corporations to try and help people get through this next year.

CHAIRMAN JOHN C. WILLIAMS: Yes, I think this point about a lot of people not coming into the city to work which means they're not shopping, not going to the restaurants, not doing other things is one of the factors that is really holding things back. But it gets back to safety and feeling that, you know, it's safe to go out and do those things which gets you back to the vaccine.

So earlier you were pretty optimistic about the U.S. economy, the global economy once we get through this period, more optimistic about the vaccine. It's going to be a tough couple of years, you've said that, but eventually we'll get back to a strong economy. So do you think that, you know, in terms of whether our local economy or more generally, what do you think are fundamental changes that may be coming out of this, out of Covid? Maybe not just directly related to it, but how do you see any long-lasting effects on our economy?

JAMES P. GORMAN: Well, first of all, let me just say about my optimism, I'm an unabashed optimist. I just, you know, I came to this country in 1985 and I've had 35 years here and became a citizen and it's a fantastic place. And we've had some very dark periods before. I was in management during September 11, incredibly dark period. You know, on the economic side I was a young associate working here in the city during the '87 crash, you know, the "Read my lips, no new taxes" and then taxes had to go up under George Herbert Walker Bush. You know, the Desert Storm, you name it, we've

faced a lot of challenges and somehow the relentless innovation and forward-looking purpose of people particularly in this country seems to recover from problems quicker than other countries do.

And I've made this comment, I grew up in Australia, but I've made it, anywhere in the world where you are, it seems like the U.S. responds and adjusts quicker to crisis. And I have no reason to believe that won't happen this time. It's not going to happen immediately. But if you look at the level of innovation, if you look at the amount of capital that can be put to work for fast-growing companies, and you look at the natural drive and ambition that people in this country have, then I think we have a lot of things going for us. So, you know, that's the source of my optimism. If I'm proven wrong at some point, then that will be a very sad day. But we will recover.

Where are the soft spots? Obviously, there are some industries that, you know, it's going to take a long time until you have full airplanes, you have full hotels, you have full movie theaters, etc. There are obvious ones. And my fear is, you know, I think about – John, I might be wrong on this – but I think only about 40% of people get a flu shot every year. I don't understand why you wouldn't, but people don't. If there's anxiety about whether this vaccine is for real and it takes a couple of years for the vast majority of the population to take a shot, that will be a problem. You know with other things that, you know, as kids we got the shots, measles and stuff, there was no choice. This is

almost something I would put in the no choice bucket because it's that important to get the country back moving again.

So, you know, that's the area of concern I have that as long as we don't have broadly distributed immunity, then we're going to have many sectors of the economy that are dependent upon people aggregating together that just won't recover. So that's a challenge. On the other hand, we've all seen the Amazons and Netflix and, you know, the pharmaceutical outlets and so on, they're in a very privileged position right now.

CHAIRMAN JOHN C. WILLIAMS: In a way, do you think that Covid has accelerated changes that were happening in the economy already, whether it's in retail or entertainment? How do you think about some of those sectors that were already kind of moving, the business models were already moving and this seemed to have pushed it faster?

JAMES P. GORMAN: No question about it. I mean, and you know we bought E-Trade right before Covid happened and while it's been hurt by what's going on in rates, sorry, John, and you know, other things, the business is unbelievable and it's because people are dealing more digitally. And we will now provide a lot of that capability throughout our financial advisor network. That's a good thing.

So, yes, this has been an inflection point that has accelerated, you know, people who

have now used Amazon that had never used it before are not going to go back and not use it again. So this has accelerated I think things that were inexorable moving towards more digital. What's going to be most interesting is how the workplace changes. On the one hand, do you need less real estate because you have fewer people coming to work? Yes. On the other hand, do you need more real estate because we've got to be more distanced from each other? Yes. So I don't think you're going to see a dramatic reshaping of real estate footprint, but I think you will see smaller congregation. So, you know, query what we have. I was on the trading floor a couple of days ago, massive trading floors. Does that make sense or would they be broken up into smaller units? Maybe still in the same building, but with smaller footprint so you don't have 500 people all sitting in one air space. That's entirely possible.

CHAIRMAN JOHN C. WILLIAMS: Well, one issue I'm sure that's coming up into your company along with everybody else, you know, what's the new normal on flexible work hours, remote work, tele-commuting and, you know, what's the new kind of way that we structure our work?

JAMES P. GORMAN: I think we've got to be, you know, we've learned some stuff. You've got to be practical about it. You don't have to be wearing a tie to do a good job. You actually don't even have to be sitting in your office to do a good job. Commuting is a tax on people. On the other hand, not having a beginning and the end of each day has

led a lot of people's work day bleed into their evenings. Isolation, on the one hand, you can focus, concentrate, you get rid of a lot of unnecessary meetings. On the other hand, it's isolating, it's affecting people's mental health. So there's no simple answers. It's not a binary outcome, this is good, this is bad. You know this is all about moderation.

But, you know, is it possible, I've said that the future I could imagine 80% of all employee hours worked at Morgan Stanley would be done in an office space, 20% wouldn't. That's entirely possible. But for some people, they might be in-office always. For some it might be one day every five. So I think we're going to be, flexibility will be the catch word and sort of dogma of this is what it takes to succeed. Well, we've learned you can succeed in lots of different ways. So, certainly as an executive, you know, I've grown up, I've been working for 40 years in a very kind of deliberate path and this has taught me, you know, the power of flexibility. And I've really, I think I've grown personally from this. So I hope we can take some good out of it.

CHAIRMAN JOHN C. WILLIAMS: I agree completely, and I say to people, if you haven't changed the assumptions or conclusions that you had back in February about all these issues, then I don't know where you've been. We've learned a lot and we've talked about that. Last question on this about culture and managing the company. I mean in a period of stress or crisis, you know, a period of crisis, you know what is really – in your view – what's the critical thing to get right as a leader, to lead your people through a

period of extreme crisis and stress, to make sure that people are able to do their work, are motivated and stay connected?

JAMES P. GORMAN: You know it's a great question because you're also battling your own issues, your own isolation, your own, you know, stuff. So you've got to separate your personal life as a leader and really focus 100% on the collective good. And I think that's just the reality and the responsibility that comes with these kinds of jobs. You don't have a choice. You want leadership, you don't, you know, as I tell people, you don't just pick the good bits. You get the bad bits too. And you've got to deal with that and that's okay. It's a privilege to lead so don't complain about the bad moments.

In terms of what you can get right, you know as we said back in February, I went to our Operating Committee and I said, what do you think we can do for our employees now, because the heart of an organization, we don't serve our clients well if our employees aren't engaged. Our shareholders won't generate good returns if our employees aren't working. So we need to start at the core essence which is our employees. We can do certain things to help those who get sick get into the hospital systems and, you know, we can do some things, hardship loans if somebody gets under financial stress. But what we really can do is take one of the worries off their shoulders that they had which is, is my job secure?

So we came out in February and said everybody who works at Morgan Stanley has a job through 2020 subject, of course, to if somebody does some major values transgression and so on. But we're not going to have a reduction in force, we're going to keep people in their jobs. We want to take that weight off your shoulders. Do not worry about your job at Morgan Stanley. It turns out we've had through the first three quarters of this year, a very good year. So in hindsight, it feels a little gratuitous but it wasn't meant that way.

I think the second thing is to relate to people's human stress that they're feeling. So when you're, you know, doing your quarterly earnings call, it's not about the numbers. The numbers speak for themselves. It's about how people are feeling and coping with all the stresses that they've got – if they've got young kids and they're home-schooling them while trying to do their job at the same time, if they've got elderly parents who they can't go and visit and give comfort to and can't physically touch – you know, all of these things are very real. So speaking in much more human terms as a leader and just trusting people to understand we've got the business part under control.

And then thirdly is leadership, I think all of us in times of stress, you know I try and, I don't know what, but my natural inclination is to get calmer as things get more stressful. And it's kind of, maybe it's a defense mechanism. I don't know. Maybe it's because I grew up in a family of ten kids so there was always turmoil in the house. But when

things get really stressful, I try and get really calm. And that just gives folks hopefully a little more comfort that if the leadership is comfortable in their skin and doing their job, then we're going to be okay.

CHAIRMAN JOHN C. WILLIAMS: That's really important point. People helping people navigate a very stressful situation and being a model of calm during that – a great lesson for all of us. In our last few minutes I want to turn to another important topic of 2020 and one I'd like to hear your views on, especially around Morgan Stanley. And that's about the work you're doing on diversity and inclusion in the firm but also more generally as part of the culture of the organization which, you know, it's been kind of the theme of our conversation, it's culture. So could you share a little bit of what's happening at Morgan Stanley in this arena.

JAMES P. GORMAN: Well, it's ironic because we had a meeting on it this morning that I'll tell you about but...well, coincidence I should say, not ironic. You know when George Floyd was killed, that was a tipping point. That was something that I think said to a lot of people, and obviously it was expressed in lots of different ways through the Black Lives Matter protest marches, through changes that have taken place in other areas in society, obviously created enormous racial tension. Some opportunists took advantage of it, you know, to wreak havoc on the streets and so on. But underneath it, there was a fundamental view that this time things have to be different. And we, you know, we

thought about it a lot and what do corporations do in times like this? They generally write, you know, a CO will write an empathetic note, sympathetic, to employees, maybe talk externally, maybe go on TV and say this is wrong, give a bunch of money to a worthy institution. And, you know, done, you know, we did our bit.

And your challenge, as organizations is not to be political entities, not to make, I don't think you should ever make a political statement. I certainly don't want my politics to infuse what we do as a company. On the other hand, it wasn't enough to simply write the gratuitous memo, give a bunch of money and say we're done.

So we reflected on it and changed our core values which we've had four core values since our beginning in 1935. We added a fifth value which was a commitment to diversity and inclusion to make it explicit. We also created an institute and for many years we've had a Sustainability Institute with an outside advisory board who have guided us on issues around sustainability. We founded that, I think, in 2013-14. We created a Diversity Institute whose job is to guide this firm in how we think about how we represent ourselves in our marketing, how we recruit people on campus, our promotion processes, what our role is in our communities, all of the things. But bring it together in one focal point.

Why I mention it's coincidental, the institute had its first meeting this morning and it was

incredibly interesting. People from very diverse walks of life helping guide us. They're not going to tell us to do things. I don't want that. Our job is to make the decisions. But we want to be informed and guided by others who have had different experiences. So, you know, listen, a great tragedy of this country is race relations and the challenges for minorities of all types in the workplace and in society. In some places obviously it's gotten a lot better, in many cases, but we're nowhere near where we need to be as a society. As a major corporation, we've got to play a constructive role. We're not here to change society. We're here to be an input into making society better from within, from doing what Morgan Stanley can do best as an institution for itself.

CHAIRMAN JOHN C. WILLIAMS: Well, James, we could continue this conversation for another few hours and cover a lot of other topics that I think our members would like to hear about. But unfortunately I'm looking at the clock and I see that we are now out of time. And one of my jobs actually as Chair of this session is to make sure we end on time. So again, thank you very much for joining with us today – a lot of food for thought – and we appreciate you sharing your perspective and experiences with us. Thanks again. Have a great day.

JAMES P. GORMAN: It was great to have an opportunity to speak to this group. This group is incredibly important as the backbone of the economy here in New York and obviously as President of the New York Federal Reserve, you play – if not the most

pivotal job – one of the top couple of jobs in this whole region of the country in making sure we remain economically stable. So thank you, John, for your and your staff's incredible work.

CHAIRMAN JOHN C. WILLIAMS: Thanks James. Well, I'm pleased to report we've got a bunch of great speakers lined up for the coming weeks as well. We encourage you to invite guests and attend our various events. Over the next few weeks, we'll be hosting Mark Zandi, Chief Economist at Moody's. We got Jay Clayton, the Chair of the Securities and Exchange Commission. We've got LL Cool J, CEO of Rock the Bells and Mellody Hobson, Co-CEO and President of Ariel Investments. So, as you can see, this has been an amazing year for the Club. We've had more events than ever. We've got a whole bunch lined up as I just mentioned, and we'll be adding more events for late this year and into next year. So please keep checking the website. Obviously we'll continue to send out emails and updates. So again thank you for joining us today and stay well.