The Economic Club of New York

114th Year
629th Meeting

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CBRE

and

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Webinar

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Introduction

President Barbara Van Allen

Good afternoon and welcome to the 629th meeting of The Economic Club of New York in our 114th year. I'm Barbara Van Allen, President and CEO of the Club. As many of you know, The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues, and we feel our mission today is as important as ever as we continue to bring people together as a catalyst for civil conversation and innovation. A special welcome to members of the ECNY 2021 Class of Fellows – a select group of very diverse, rising next-gen business thought leaders as well as students joining us from Columbia Business School and the CUNY Graduate Center.

True to our mission to facilitate thoughtful discussion and debate on the pressing issues of the day, we're pleased to be kicking off today climate and related ESG conversations with our special guests, Mason Morfit and Bob Sulentic. Mason is a Partner and Chief Executive Officer and Chief Investment Officer of ValueAct Capital and is a member of the firm's Management Committee. ValueAct Capital is an investment company with a portfolio value calculated at $9.269 billion on behalf of several institutional and individual investors. The company is a privately-owned hedge fund that invests in the public equity markets.

Mason is a former director of Advanced Medical Optics, Inc., C.R. Bard, Microsoft Corporation, MSD Performance, Inc., Solexa, and Valeant Pharmaceuticals International. Prior to joining ValueAct Capital at inception, Mason worked in equity research for Credit Suisse First Boston's health care group where he focused on the managed care industry.

Mason has lectured on issues of corporate governance and executive compensation at Stanford Law School's Director's College, the Graduate School of Business at Stanford University, and the Haas School of Business at the University of California, Berkeley.

Bob Sulentic has been President and CEO of CBRE since December of 2012. And prior to becoming CEO, Bob served as President of CBRE, with responsibility for all the business segments. In addition, he served as the company's Chief Financial Officer in 2009, during the depth of the global financial crisis. Earlier, Bob served as Group President for CBRE's EMEA, Asia Pacific, and Development Services businesses.

Today's program is going to be a conversation, and we're so fortunate to have with us, Bloomberg News Deputy Bureau Chief and Bloomberg Live Senior Editor for the Americas, Shartia Brantley, as our moderator. We're going to end promptly at 1:00. So, as a reminder, please, this conversation is on the record as we do have media on the line. So without further ado, we're going to go ahead and get started. Shartia, the mike is yours.

Conversation with Bob Sulentic and G. Mason Morfit

SHARTIA BRANTLEY: Thanks so much, Barbara, for that lovely introduction. I'm delighted to be here today to discuss integrating ESG to create sustainable and tangible outcomes with Bob and Mason. Welcome to both of you.

BOB SULENTIC: It's good to be here, Shartia.

SHARTIA BRANTLEY: It's great to see you both. We have a lot of ground to cover so I just want to dive in and, Bob, I want to start with you. Can you share a bit about CBRE and what's motivating or driving your ESG strategy?

BOB SULENTIC: Well, Shartia, when you look at our company, there are several things about us that put us in a position that make ESG particularly relevant. And I want to start by saying we think of ESG as not one big thing, but several things, so the environment, the social issues, the governance issues where we work very closely with Mason and ValueAct and Brandon Boze, our Chairman who is from ValueAct.

But starting with 100,000 employees, it's the people we have and that's on the social side of things. What do we do with those people to help them to help the communities they live in? We're the biggest manager of buildings in the world. We manage seven billion square feet of buildings around the world, which puts in a great place to do a lot for the environment. By the way, it creates a lot of obligation for us to do a lot for the environment.

We're the biggest developer of commercial space in the United States. We have $26 billion worth of development either in process or under way. So we're creating real estate. We're creating buildings that impact the environment. So there's a lot that we can do to impact the various elements of ESG, and it becomes important that we live up to the obligations we have. It also is an opportunity for us to build our business using the tools that ESG delivers.

SHARTIA BRANTLEY: And Mason, I want to bring you in. Can you provide an overview of ValueAct Capital to our viewers and your investment approach overall and as it relates to ESG?

G. MASON MORFIT: Yes, well, first of all, thanks for having both of us today. Bob's been a fantastic partner for us and CBRE has been one of our most successful investments, so it's an honor to be here and to be sharing the stage with him.

What ValueAct does, and we've been doing this for 21 years, is buy big stakes in public companies, hold them for a very long time – in some cases decades – and think like owners and partners to these management teams and boards. And in about half the cases, we actually serve as members of the board of directors. And if you hold a company for that long, you're going to end up owning the consequences of its culture, its behavior, and its interactions with the society, environment, etc. And so it is an imperative for us as investors to have our arms around these issues and to be thinking deeply about these issues.

For us, we had this big bang moment about six years ago, in 2015. At that time, I was on the board of two different companies, Valeant Pharmaceuticals and Microsoft. And if you guys remember, Valeant became a poster child for the pharmaceutical industry's pricing practices. It was a company that was under attack by presidential candidate, Hillary Clinton, government agencies, short sellers, etc. I watched this company's stock fall 90% and I had to participate in an investigation and a management change and sort of a reboot of the culture and the mission of the company.

And at the same time, every other month I was going up to Redmond, Washington to work on Microsoft. And in some respects, Microsoft had had its traumatic event in 1999-2000 when it was perceived to be a monopolist. But by the time I was there, it was really world-class in terms of thinking about how it interacted with the communities in which it did business and what issues were relevant to be a good corporate citizen and preserve its own sustainability.

So one week I'd be watching a company that had not invested in these issues and was suffering the consequences and then one that had really thought deeply about it. And it was such a, in some respects, a traumatic experience on one side and eye-opening on the other that I came back one day from a trip up to Redmond and I told our entire investment team, go meet the sustainability officers at all of our companies and let's really get smarter about these issues because we have got to be thinking about these both in terms of our upfront investment and then our ongoing work with the companies over the years that we work with, but it is absolutely critical to success as an investor to be on top of these things. So I'll cut it off there, but that's why we care and that's how we got to where we are today.

SHARTIA BRANTLEY: Got it. Well, as we know, ESG is definitely in the spotlight right now and ESG assets are on track to reach more than $50 trillion by 2025 according to a Bloomberg intelligence analysis. Bob, I want to bring you back in here. So how does an effective ESG strategy impact your bottom line at CBRE? And then, Mason, I would love for you to weigh in on that as well.

BOB SULENTIC: Well, again, Shartia, I want to break it into pieces. So we start with our people. We have 100,000 people. The products we sell into the marketplace are the services that those people provide. If we are doing good things for those people, if we are taking care of their health, creating career opportunities for them, putting them in a position where they can be great participants in their communities, making them happy, they do great work for our clients. When they do great work for our clients, our clients allow us to be profitable, to grow, and to do more work for them. So that is the most direct way, and that's on the S in ESG.

As it relates to the environmental piece of it, sustainability, we have a number of offerings today that are very relevant to sustainability. We recently made a $1.3 million investment in a company named Turner & Townsend, a U.K.-based project management, program management, and price consultancy company that's very big in renewable energy and very big in infrastructure. Those are areas that are growing, that are creating great opportunities for profitability, great opportunities to serve our clients, so it is a very direct bottom line impact on the success of the company, but it also has a very direct impact on the success of the company as a member of the business community and the world community at large because we are doing things in the sustainability area at scale that matter.

Another company we are sponsoring financially is a company named Altus Power. They are a provider of solar energy solutions to commercial buildings where we play. They're the biggest provider in the U.S. of those kinds of solutions. Obviously, that's a green energy solution. Obviously, it's something that our clients want. It's something that the shareholders that invest in our company really like when they look at. And that's another "E" element of our strategy that's driving the business.

The final one that I'll mention is governance. Investors that buy shares in companies like ourselves want to be involved with companies that have great governance and companies that know, or in companies that they know have involvement from their boards in setting strategy and ensuring that they have an ESG strategy, aligning management rewards and incentives with that strategy. We work very closely with ValueAct and with Mason's partner, Brandon Boze, who is the Chairman of our board that I've worked closely with for the better part of a decade. And I think that's where the relationship between a board of directors and an investor like ValueAct and a company like ours and a management team like ours really comes to play as it relates to the whole ESG effort and initiative.

G. MASON MORFIT: Shartia, I think these points are really interesting because you're asking, I think, a really important question, which is how does this translate in the bottom-line results? Because I think while Bob and I are both good citizens of the world, we also have to deliver bottom line. And Bob outlined a couple of things there that I think illustrate the principles of how you can actually create more business value.

One of them is product and services differentiation. Right? Where your product is actually desired by the customer because of its environmental footprint or social dynamics. The second one is just brand. Right? And brand really matters for what do you stand for? Are you a good company? Are you a bad company? Particularly in the workforce we have today of Millennials and Gen-Zs that want to go work for places that they believe in and that have a mission. And then the third is this talent culture dynamic. If you can attract the best people, almost by definition you're going to create a better and stronger company. And so CBRE is a great lighthouse for us in all of those regards.

And if I back the story up again, from our perspective, and it's an interesting conversation because you have ValueAct operating at the investor-owner level and then Bob – to his credit – actually having to get it done at the operator level. I think when we, six years ago, decided to dig deep into these issues, Brandon, my partner, who is Chairman of the Board of CBRE, started working more with Bob on these issues and elevating them to the board level, and what can we do in these three regards? Product differentiation, corporate brand, and then culture.

And you see the outputs of that playing forward in all these stories. But you can also look at the company's performance and it's just extraordinary versus its competitors and versus most companies out there. And so it does pay off. It is not just doing good for good's sake, although that is worthy. It really does pay off in the bottom line.

SHARTIA BRANTLEY: I definitely want to talk about this whole notion of having a collaborative relationship versus engaging in a proxy fight. But I will just say my observation is that the two of you have a very warm and cordial relationship. Is this the typical relationship ValueAct has with a portfolio member such as CBRE? Or is this a unique situation we have here?

G. MASON MORFIT: Well, it's what we aspire to every time we make an investment and most of the time it is what we get. We have a few cultural tenets that I think help make this work. One is, and I stole this line from one of my biggest mentors, Satya Nadella, CEO of Microsoft, and he says, the learn-it-all always outperforms the know-it-all. And in my industry, there's a lot of know-it-alls, and I don't have to tell you guys at Bloomberg that. But you're much better off coming in with an approach that you're trying to learn.

And if you approach the world that way, you end up creating what we call learn-teach relationships, and I think our relationship with CBRE is one of the best examples of that. But my relationship with the Microsoft team would reflect that and many, many others. The second is thinking really long term, which I touched on already and, you know, we have to because that's how long we hold these companies for. The third is trying to create win-wins. And the fourth is being transparent, respectful of everybody you work with.

And so while ValueAct sometimes gets lumped in with this category of activist investors, we think of ourselves as something very different. Our mission is really to work with great companies to navigate change, to build 21st century global champions. And when we use those words, we mean companies that have great senses of mission, that are talent magnets for creative people, that are innovating with solutions for their customers that nobody else has done, etc. And so if that's your mission and these are the kinds of values you live by, we tend to gravitate towards people like Bob and tend to form those kinds of relationships. So it is our pattern. I'll probably stop patting ourselves on the back for a second here and let Bob tell his side of the story. But that's what we're trying to do.

SHARTIA BRANTLEY: I appreciate that. And, you know, Bob, something you said yesterday when we spoke briefly was this whole notion of active versus activist investor when it comes to the relationship CBRE has with ValueAct. Can you expand on that a bit?

BOB SULENTIC: I can. And, you know, sometimes the easiest way to talk about a point is to describe a conversation you had with a third party about that point where there was nothing at stake. And so I have more than once been in conversations with other shareholders, shareholders other than ValueAct, and they asked me about the relationship with ValueAct on our board and specifically my relationship with Brandon

Boze, our Chairman.

And the way I describe that relationship, and you said it, is Brandon's active, not activist. He's not getting in there trying to tell us how to run the company. He's collaborating with me to come up with ideas mainly, but not always, mainly around strategy on how to drive the business forward. And what is strategy? Strategy is where you want to go and how you want to get there. It's your plan for getting there.

And I would say that over a course of seven years, my relationship with Brandon has elevated to the point where it truly is a situation where he's become a real confidante of mine. You know everybody, they always say everybody needs a few go-to people and usually that list is really short, go-to people you can really trust to talk about tough issues, strategic issues, etc. Well, I discuss all of that with Brandon. He's typically my first call on those kinds of things.

Not because I have to go to him – there are certain things I have to go to him for as our chairman of our board, when we want to make a big investment, when we want to make certain changes that require public disclosure – but far more when I don't have to go to him, I go to him because I believe he's a great confidante. I believe I'll get good, strategic help. I believe I'll get help thinking through a really tough issue at the personal level or something. And so that's the way I describe, that's why I say active, not activist.

And we're aligned strategically. We're aligned in what we ought to do operationally. And it's a productive relationship that has resulted in good outcomes for all our companies, constituents, including our investors.

SHARTIA BRANTLEY: And following on that, I want to talk about ESG and value creation. As we know, ESG can mean different things to different organizations and rightfully so. Right? Just how they're structured. So, Bob, what differentiates CBRE's strategy versus your competitors in the commercial real estate space?

BOB SULENTIC: Well, first of all, all of us in the commercial real estate space have two things in common, our big competitors. Number one, we have a lot of people. So in that whole "S" in ESG, we've got lots of opportunities to succeed or fail. Do good things or not. And we all manage a lot of space. But we do more of that than anybody else in our sector. We have more people and we have more square footage, more real estate than we are responsible for managing.

And we do something that I do think is a little different than others. We focus obsessively on outcomes for our constituents in everything we do. If you were to sit into one of our board meetings or if you were to sit into one of our executive committee meetings, which is essentially our management board, in everything we do, if you were to sit through the last strategy cycle we did with one of the world's most prominent strategy consulting firms, in everything we do, we ask the question, what are the outcomes we're looking for? What are the outcomes we're looking for with regard to the environment? What are the outcomes we're looking to deliver to our people and, in turn, our communities? What are we going to do with our suppliers?

Well, I'll give you an example of one of the things we've decided we're going to do. We have a very specific outcome-driven goal that this year we're going to spend a billion dollars with women and minority-owned businesses this year. And by the year 2025, we're going to grow that annually to $3 billion. That is an outcome-driven strategic objective. And that's what I think separates us a little bit from other companies. Now ValueAct would have their own view as to whether or not we actually live up to this outcome-driven approach, but that's what we try to do. That's what I do when I interface with our board and with Brandon, and that's what our management team does, and I think it's worked well for our constituents.

G. MASON MORFIT: If I could maybe jump in here, Shartia. When we surveyed the landscape of what we had inside the portfolio and we looked at who was doing what in terms of their sustainability work, there was a wide range of stuff going on. And we plotted this thing out on two different axes. One was like how much are they doing or how serious is it? How elevated is it? Is it going to the CEO and board and how, you know, are they measuring things?

But the other was how authentically integrated into their business plan was it? Because we found some companies that had, were doing a lot of stuff and a lot of philanthropic work, just a lot of projects that were not particularly coordinated or centralized but just going on all over the place. It was great. But it really didn't have anything to do with the mission of the company or what the company did. Right? You know, if you're a software company, it's nice that you're donating to the homeless shelter, but what does that have to do with what you're doing?

And we found that actually the best companies were thoughtful about integrating this work into the core of how they designed their products and services, how they staffed their companies, and ultimately how they measured themselves and these output ideas that Bob is touching on where it's not subjective, or purely subjective, goals, but it's measurable dollars and cents outcomes. And I think the next frontier is how do you tie that into executive compensation?

So, Step 1 is what are we doing? Two is, is it integrated and authentic to the mission of our company from product design all the way through delivery, and culture, to measuring, to ultimately incentivizing? And I think, I don't know if, Bob, you're comfortable talking about some of the incentive work that you guys have done, but you're leading on that as well so maybe you'd want to.

BOB SULENTIC: We have a compensation structure for our senior executive team that's driven around, first of all, when you get to very senior people, they've got a broad, broad mandate that they're responsible for. And one of the things we've decided with our senior team is that you're going to have a group of things that we look at and we measure them on, and then I, in turn, go to the board and make recommendations as to how they get paid relative to this group of things. And the group of things that is in that measurement population, for instance, includes topics that I discuss with the board aggressively.

So we have really focused on, at the board, on employee engagement. That's in my plan, I can tell you that. We have really focused on, at the board level, on diversity, equity and inclusion, and specifically on, again, getting back to this outcome-driven thing, how many diverse people either got hired or promoted into senior roles? We focus on that. We focus on the growth of the business, and one of the things that's front and center in the growth of the business for us now is all the things we're doing in the sustainability area. So I've got a ten-person executive committee, including myself. The board decides what to do with me. I make a recommendation on them. And all of these things that are in that ESG strike zone appear on the list of things we evaluate when we decide on year-end compensation.

And our compensation structure for that group, I can't give you an exact number – I have no problem giving it to you, I just don't know it off the top of my head – but I'm going to guess that our compensation for our senior executive team is something like 70 to 75% incentive compensation, including stock. So we've got to perform along those ESG parameters to come out well financially.

SHARTIA BRANTLEY: One thing I want you to weigh on, we have so much happening right now. Right? We're seeing the effects of climate change with so many devastating storms. We are experiencing the racial reckoning post-George Floyd. And we're seeing our Millennial and Gen-Z employees and consumers demanding more and expecting more from corporations and its leaders. So how do you prioritize all of these competing priorities and stakeholders, Bob? And, Mason, I would love for you to weigh on that as well.

BOB SULENTIC: I'm really glad you asked that question. I didn't know you were going to ask that question, but I'm really glad you asked that question for the following reason. For years, way before ESG became a famous front and center initiative and way before the George Floyd circumstance provoked incremental impetus to be attentive to diversity and to be attentive to equity and inclusion, way before that, we said it was our job as a company, it was our job as a leadership team, it was our job as a board to serve our constituents in a balanced way. And this goes back to something Mason said. Why do you do that? Well, you do that so you can get good outcomes for everybody.

And the example I always give is let's say that we don't start where forever companies said they were going to start – with shareholders. Let's say we start with employees in a company like ours. And we don't do a good job with our employees. They're demoralized. They're disengaged. They leave. What happens? Our clients aren't happy. What happens when our clients aren't happy? They leave. What happens when our clients leave? We've got no work for our suppliers. What happens when all that happens? Well, our share price doesn't do well because our earnings don't do well and then ultimately I'm gone as the CEO of the company.

So we have for years said that we're going to work across that group of constituents in a balanced way. We're going to use our judgment to make sure they're all served well. And our kind of mantra for this company for the last few years has been we're going to be a world-class company and very definitively, our definition that we broadly circulated on that, is as a world-class company, we're a company that delivers outcomes for our constituents, not constituent, our constituents, consistently that they can't get elsewhere. And to do that, you've got to be balanced. It's a very easy question to answer for us because we think about it all the time.

G. MASON MORFIT: One thing I want to highlight and piggyback on what Bob is saying is you hear that thoughtful approach of working with, surveying, talking to in conversation and listening to the constituents that they serve. Because you could go, as a company, and do an unlimited amount of projects in ESG. You could take on, and there would be plenty of people asking you to do it, and a lot of the work is, what do you say no to as well as what do you say yes to. Right? Because there are lots of problems in this world that can be solved with time, energy, money, and where do you draw the boundaries of what is in-scope versus out of scope.

And as an investor, what's happening that I think is fascinating, you touched on the trillions of dollars that are flowing into the ESG space, and there's a lot – I would bluntly call it noise – in the shareholder community about what is ESG investing and what should shareholders be expecting of companies? And there has been a huge growth in advisory companies and ratings companies and consulting companies, and some of these are oriented very, sort of horizontally along certain issues. Right? Just climate, climate, climate. And that's all fine.

But what we do at ValueAct is try to think about the uniqueness of each company and what it actually does as a business and as a participant in its communities and societies. And from the inside out, right, talking to those constituents that Bob referenced, developing a north star that is authentic to that company rather than be responsive to the dozens and dozens and dozens of outside-in ideas, which are all good ideas. But to us, the best companies that are leading in the ESG front are doing it from the inside out, not the outside in. And I think Bob's company is a great illustration of that. We have plenty others in the portfolio I could talk about as well. But I think that's an important concept.

SHARTIA BRANTLEY: So, Mason, how does authenticity play a role in this? When you talk about, you know, a company can be all over the place and tackling various issues, what role does authenticity play?

G. MASON MORFIT: Well, I think being thoughtful and listening. The answers are within your employee base, your customer base, your supplier base, your partner base. And if you listen to those voices, right, you're going to create a mission that is energizing for your team and also is going to pay back in terms of business results. It's almost, like anything else in business, it's like focusing and being thoughtful and driving for a clear outcome is way better than trying to scatter yourselves, spreading yourselves thin.

I mean, you know, I'll give you a couple of examples from our portfolio. We have a company called LKQ, which its business is harvesting out of junkyards auto parts that can be recycled. I think about them as organ transplants of crashed cars and transplanting them onto cars that have accidents and are in body shops. And it's a hugely environmentally positive business model because instead of manufacturing a new part, you use an old one and you re-use it. And that's a business that really has grown by professionalizing that service. Right? Because it's a benefit to the body shop because they get a better part. It's a benefit to the environment. It's better for the insurance company that's got to pay for it. It's a benefit for the consumer's out of pocket. The only one who loses is the auto OEM that doesn't get to sell another expensive part.

And so that company has been on a mission to professionalize and catalog and digitize its inventory, but also overcome regulations that sort of inhibit re-manufactured or recycled part usage. It's had to evangelize to the insurance companies why this is better. But this is a great example of sort of, that's a company, again not to make light of it, but could have been spending its time on homeless shelters and lots of causes, but it really is focused on sort of the environmental impact of what it does as a service in order to grow its business and drive market share. And I just think that is the far better path than, you know, I guess authentic is always better than inauthentic. I guess that's true.

SHARTIA BRANTLEY: Bob, listening to what you and Mason are saying, it sounds great, but, you know, how do you balance this desire from stakeholders for quick fixes while you take the time to develop and deploy long-term strategies?

BOB SULENTIC: Well, it's a little bit like the question that you asked, Shartia, about the balancing of things between constituents. We just got comfortable years ago with the notion that we had to serve all of our constituents and get all of our constituents outcomes they couldn't get elsewhere. We became comfortable with the notion years ago that we're building this company for the long run. And in doing so, I'm being clear about that, we're attracting shareholders like ValueAct that want to be around for the long run. That's actually part of our strategy to have those kinds of shareholders in our company.

And as part of that, we just, we're making investments, both in terms of capital and in terms of the resources of the team to do things that will lead us in a very good direction in the long run. And because we're big and because we have a broad footprint geographically in terms of the types of products we serve, you know, warehouses, office buildings, life sciences buildings, because we do a lot of different services, if you have a long-term view and you're driving things for the long term, there will be enough of those things working in the short run that you'll get very satisfactory outcomes. And so that's the way it's worked for us.

And I can tell you, it's just the way it is. I've never had a lot of anxiety in the eight, I guess almost nine years I've been in this role, about the short-term versus the long-term. I always felt it was my job to build a business that worked over time. And I've never had anxiety about balancing the various constituents because that's just been a given from day one.

SHARTIA BRANTLEY: And a follow-on to that, Bob, then, I want to talk a little bit about key lessons learned. As ESG becomes top of mind for so many business leaders, what are some of the lessons learned on this journey?

BOB SULENTIC: Well, one of the big ones for me, maybe, I don't know if it's the biggest one, but it's the one that comes to mind the fastest, is ESG is not one thing. I said that in my opening comments. It is simply not one thing. It has gotten bunched together because of the circumstances we've been in over the last few years with diversity challenges, with big environmental challenges, big challenges in both areas there, because of all the governance challenges we've had around a corporate share in America and around the world.

So it's all these things that are, what I would put in the bucket of kind of character things or ethical things or do-the-right-thing things, and we've put them in one bucket as if they're one thing, but they really aren't. Right? The environment is a very big, very unique thing. The social issues we face, of course, environment is part of that, very big, very unique thing, particularly when you get into diversity and equality and all that stuff. Governance is a very big, very separate thing.

So if you set those things up within your strategy and develop plans to attack each of them, you're going to be successful. If you had this one big amorphous thing that is

ESG, I think you're not going to know where to go. It's kind of like, you know, having a big cloud out there and say I want to get to a destination versus having a point out there somewhere and saying that's the destination I'm going after. And so it's just a very big thing.

The other thing I would say is you have to give people responsibility and you have to hold them accountable for outcomes. When we look at the way we ask our senior leadership team to work, what I always say to them is this is your job as it relates to any given thing. You have to study it deeply enough to understand it. You have to develop a point of view. You have to build strength around that point of view and conviction in that point of view. Then you have to develop a plan to act on that convicted point of view. And then you have to deliver an outcome.

You've got to do that with these ESG-related initiatives, the E, the S, and the G initiatives. You've got to think about them the way you think about investments. If you don't do that, again if it's just kind of the loosey-goosey thing that you like to talk about when you're in front of groups of shareholders or something, it's just not going to work in the long run.

SHARTIA BRANTLEY: Mason, you know, ValueAct, you sit on...

G. MASON MORFIT: Do you mind if I piggyback on that one? Because I think it's such an interesting point, I'm sorry to interject. But I talked about it earlier, when we studied it, some companies had initiatives that had nothing to do with their business, some that had them tightly integrated, some that were subjectively measured versus objectively measured, and some that had no compensation, and some that had it tied to compensation. And I think what Bob is also illustrating is the organizational design elements of this. Right?

You can't, in my opinion, it's not a good idea to set ESG up as this sort of separate sleeve. Right? It's like a compliance organization or it's a reporting organization or it lives in its own piece of the org chart. It's got to be integrated into the operating structure of the business. And I know, Bob, you have some tangible examples of this on the DE&I and on the human capital side about how you've actually embedded this stuff into the organization you might want to talk about. But that integration of, like it isn't a separate thing, it's like in the muscles and bones of the organization is a huge, huge point.

BOB SULENTIC: And Mason, just to pile back onto that, what I would equate it with or analogize it with is technology. Right? If you go out and spend a bunch of money on technology, build a great technology team, buy technology systems and set them off to the side in your business, you get nothing. They've got to be embedded in the business with the market-facing elements of the business so that they can help drive the business, help make the business better. And so what Mason said is so important.

I'll give you one example. And the example is diversity – diversity in our workforce, diversity in our leadership team. So we've said, we've said very specifically that we want to be a world-class company that consistently delivers outcomes to our clients they can't get elsewhere. And we said as part of that we're going to have the industry's best talent.

And so you ask yourself the question, how are you going to have the industry's best talent? Well, one of the ways you're going to have the industry's best talent is to fish from the biggest pond. And the biggest pond includes everybody. It includes people of all racial backgrounds, sexual orientation, men and women. If the pond is this big rather than this big, you're not going to deliver that outcome.

And then you say, okay, how do you take it from there to ensuring that you're really delivering from the full pond, where you go to your people and say, when I talk to you about diversity, I'm not talking to you about mentoring programs and recruiting programs and this and that. I'm talking to you about delivering at the end of the year, how many diverse people did you either hire into key roles or promote? Bottom line. It's not all the programs you managed. It's the bottom-line outcomes you delivered. And that's what we're doing very specifically. By the way, when Brandon sees the report at the end of the year on the ten people that are on our executive committee, myself included, there will be a very, very specific report on what they did in that area.

SHARTIA BRANTLEY: Definitely. Mason, something I want to talk with you about, ValueAct sits on more than 50 boards, I believe, so how has having a seat at the table of so many different companies across industries informed your view? And have you identified best practices, if you will, from having that exposure?

G. MASON MORFIT: Yes, that 50-board seat statistic is over the last 20 years of the firm. At any one point in time, we're on five or six, but the point still holds. And one of the things that we, going back ten years ago, where the lightbulb went off that we're getting incredible life experiences here across all these companies, seeing crises, seeing CEO changes, seeing M&A, seeing strategy shifts, seeing all kinds of stuff.

What if we documented best practices, wrote them down and taught them to each other and then taught them across company to company? And we call that our ValueAct toolkit. And in some ways, well, in a lot of ways, ESG sort of is the latest thing that we are climbing the learning curve on and finding great leaders to learn from and work with, and we've invested in our own talent internally to help us do this.

It's important to know how fast this world is moving. And in some respects, we talked about it, the events of 2020, the pandemic, George Floyd, etc., accelerated a lot of this. And so we are drinking from a fire hose just as are most public company CEOs and probably many of the members of The Economic Club of New York that are listening to this, are trying to take in a lot of information and a lot of change/

When we look out on the market today, there actually are quite a few public companies, fairly, a surprisingly high percentage that have started incorporating ESG into their executive compensation plans. We don't yet have full transparency because comp is reported with a lag and next year we're going to figure out what they did. But you can see this transformation in the corporate community's attitude towards its responsibility on these issues is changing very, very, very quickly. And so we're lucky because we get to sit inside the rooms of a lot of these, a lot of these companies.

And some of the lessons we've talked about today, these concepts of like authenticity and integrating it into your products, design, organizational structure, I'm telling you some of them in real-time. And the compensation front is kind of the new frontier, and we're learning a lot about that. And Bob can talk more about what CB's done. We have a company called Seagate that makes disk drives that are similarly put in place, quantitative, measurable outcomes that they're driving to with several horizons, one, three, and ten-year horizons, because you talked earlier about the time horizon issue and what about short-term fixes versus long-term.

For better or worse, the types of issues we're talking about are not short-term problems. They're big issues and they're big opportunities but they're decades-long opportunities and so you've got to kind of be realistic about the time frame in which you can accomplish something. And you've also have to tie your compensation and accountability time lines to what is a realistic time line for sort of addressing the solutions.

So the things that we'll be watching for over the next 12 months to two years from inside the boardrooms we're in as well as other companies is sort of how are people doing this? How are people measuring and how are people holding accountable and how are they compensating? And I think we, as a business community, all have to teach each other and learn from each other and all kind of be learn-it-alls, not know-it-alls on these things and kind of keep moving forward because it's evolving super quickly. And if we did this same session a year from now or two years from now, I think there would be a tremendous amount to talk about that had just happened in the previous 12 months. So it's an exciting time to be working on these things, and I'm excited to see where things go.

SHARTIA BRANTLEY: Bob, did you want to add anything else to that?

BOB SULENTIC: Well, I want to pick something out of the middle that Mason mentioned. It kind of makes me smile when I hear it. This happened, I'm going to guess five years ago, the ValueAct toolkit. You know, we all have things that, for lack of a better phrasing, become part of our broadly-defined corporate branding. And ValueAct came up with this toolkit. And there's a bunch of stuff in there. And I actually went to Brandon, and Brandon would remember this, I don't know if Mason knows the story, I actually went to Brandon, like I said, four or five years ago, and I said, okay, Brandon, we're trying to get this thing that we're running better. What in the toolkit is relevant to us? And so we actually went through it and several things we focused on. One of them we really focused on at that time was employee engagement. There's been other things over time, but that toolkit is the real deal. It's not just, it's not just a branding thing. And it's something that's helpful to, I'm sure, other companies, not just ourselves.

SHARTIA BRANTLEY: One thing I do want to touch on, Bob, just the breadth of your organization. You know, you mentioned earlier having billions of square footage around the globe. How does being such a global entity impact what you're doing, the challenges and/or the opportunities that provides?

BOB SULENTIC: Well, we talk, increasingly talk about our company as benefitting from the fact that we operate in a massive industry, and that massive industry provides diversification across four dimensions. Number one, the types of services we provide. So we're a developer. We're an investor. We're a manager of buildings. We're a project manager. We do a lot of different things. We operate across a whole broad group of product types – office buildings, warehouses, life sciences buildings, medical office buildings, multi-family buildings. We operate around the world in 100 countries. And, of course, we operate with every kind of client you can imagine – technology companies, financial companies, manufacturing companies, healthcare companies, hotel companies. We're diverse across all those dimensions.

And one of the things we've learned in the Covid area is it's become a wonderful thing because when you have a big footprint across all those dimensions, at any given point in time, it's very likely that there's places that are going to be challenged, but it's also very likely that there's places that are going to really benefit. So when you sit here today and you look at that world that we're operating across, office buildings, no big secret, they've been challenged, and we're still all trying to figure out where they're going to go. Warehouses, because of e-commerce, have been more on fire than they've ever been in my 37-year career in this business, and we're big in both. So we've moved resources towards warehouses.

It's true with regard to the global elements of the company too. So right now the markets in the U.S. that for the entire period from the Great Financial Crisis up to the start of Covid that were so hot, the gateway cities, are struggling a little bit now. But we're in second tier U.S. cities that are doing quite well. Europe, various parts of Eastern Europe and some of the second-tier markets in Europe are doing quite well. Asia is doing better than the United States is doing right now in response to Covid.

So being diversified around the world geographically has been a big plus for our company. It's helped our earnings, even while we're in the Covid period, set new records, which is a wonderful thing that allows us to do lots for all our constituents. And really importantly, one of the things we learned as a global company is if you want to be successful in countries around the world, the notion of going into those countries and trying to run your business with ex-pats isn't the right strategy. By the way, this may have been something in the ValueAct toolkit.

So if you look at where we are in Asia today, for instance, versus where we were a decade ago, a decade ago we had a lot of ex-pats running those businesses. Well, today in India we have people from India running the business. China, Chinese people running the business. Korea, Korean people running the business. Japan, the same thing. All around Asia we have nationals running those businesses. That's been a big plus for us. And that's part of that whole diversification strategy, finding people from the full population to run your businesses.

And by the way, one of the things that you would be interested to know is that in Asia, we've got a lot of women in important roles running businesses. More inclined that way than it has been historically in our industry. Here in the U.S., of course it's changing here. But it's one of the interesting things going on around the world.

G. MASON MORFIT: Yes, on that front, the point about each country is different and each region is different and each, maybe even metro areas are different within countries. When I was on the Microsoft board, I was struck by the thoughtfulness with which they had studied the impact that technology was having in different communities. And so you had places in Africa where just having a device was a big deal, and internet connectivity, and so there was a lot of work by the company to help drive access to technologies there.

In some places that were former Soviet Block or Iron Curtain countries where they had a history of state surveillance, data privacy and data security was a huge issue. And so that affected the way that the company designed its data center layout and its data security offerings there. In other countries and communities, the issues where education and access to technology and schools and so Microsoft had programs for providing and supporting K-8 education with devices and software and stuff.

And so, again, every problem, you can un-peel and make more and more complicated, but I do think – to echo Bob's point – ESG isn't just one thing in terms of issue type, environmental, social, but it's also different by geography. And so I think if a company can kind of integrate this thinking into its strategy, its long-term planning, its human capital, and it becomes part of the DNA, it takes on a life of its own and then you can kind of really light this up regionally and by country as well as by issue.

SHARTIA BRANTLEY: Thank you so much for that. I do want to talk in our remaining minutes about the future of ESG. And, Bob, I know that CBRE recently committed to net zero by 2040. So with that being said, you know, how will your ESG strategies influence the future of CBRE?

BOB SULENTIC: On that commitment to net zero by 2040, there's a really important point there. There's our company and our footprint, which again is that 100,000 people and the office space we occupy, etc., but what we've said is that we're going to focus on not just our company and our footprint, but that 7 billion square feet of space we manage, that $27 billion of product we're developing, that 125,000 companies that are in our supply chain. So that is a much, much bigger goal than just our company net zero.

But here's what we think the future is going look like for us. We're going to have a more diverse, more engaged workforce, and that 100,000 people is going to grow. And that's going to impact the communities they operate in and that's going to make our company better and that's a big plus.

The sustainability initiatives we've made, or investments we've made, and I mentioned Turner & Townsend, and I mentioned Altus Power and this consultative capability we have around energy, are inevitably going to outgrow the other parts of our business. They're going to outgrow the other parts of our business for a few reasons. Two of the big reasons are, is we're going to disproportionately invest in them and our clients are going to drag that out of us. That's what they want. So our company is going to be more oriented that way tomorrow than it is today.

And then finally, because there are other investors out there in significant volumes that share the view that ValueAct has that they need to be investing in companies with good track records around the environment, around social issues, and around governance, we're going to attract more and more of that kind of capital. That's going to cause us to achieve what we, the term we use, which is in the financial community, being re-rated, being more attractive to capital. We think it'll cause a; we'll be a more valuable company. So you should expect to see all of those things in our future and that should make anybody that really cares what's going on out there in the ESG world, broadly-defined, feel good about CBRE and feel good about our relationship with ValueAct.

SHARTIA BRANTLEY: Mason, for you, how does this influence your investments as a firm going forward as we see greater emphasis on ESG?

G. MASON MORFIT: Well, on a micro level, you see us, you're going to see us partner with leaders in this space. And Bob talked about the Altus Power investment, the solar power for commercial clients, which needs a commercial real estate footprint. So that's a company we are sponsoring and putting capital into. One of our employees, a woman named Sarah Coyne, is going to go on that board. When you work with good people, great people and great companies, it opens up options for more investment and more learning. So we're going to keep partnering with great people and doing more and more interesting things and continuing to push the envelope and learning stuff.

And I will also say that upfront, every time we make an investment we ask ourselves, is this a company we're proud to own because of what it's doing for society? And, you know, not everything is black and white. Right? I mean, you know, the world is more complicated than that. And in order to inform ourselves, we try to take in lots of diverse inputs.

And I'll give you a good example. In 2016, okay, so in 2015, I had this Valeant-Microsoft, compare and contrast experience, and we're starting to embark on this. In 2016, we make our first investment in a bank, Morgan Stanley. Now banks are companies that have a checkered history in the public opinion. Right? And certainly heading into the financial crisis of 2008 and in the aftermath, they had, you know, some issues. We've spent a lot of time really deeply understanding the business we were going to invest in and what defines a good and ethical player in the financial community.

And that wasn't just the normal investment research process of meeting with a company and studying financials and stuff. We went to Washington and met with think tanks on the right and the left, regulators. We read journalists on either side of the opinion. We tried to meet with Occupy Wall Street, but I guess they thought we were Wall Street too so they turned us down. But this is the kind of thing that we do to try to say to ourselves, can we sleep at night owning what we own? And that's upfront.

And then the next stage in our investment, once we've deployed the capital, so Step 1, as an investor, is what do you invest in and what do you not invest it? And so we have a way of sorting through that problem. And then the second stage is what do we do as stewards of this capital, as partners like Brandon and Bob, when we're board members, or even when we're not, to help partner with and advise the company? And that's where the learning is still going. I talked about this; this is still early stages of this. And so I'm really looking forward to continuing to learn stuff. But embedded in our process from upfront decision, ongoing monitoring, it's just a totally different game than it was five years ago, and it's for the better, I think.

SHARTIA BRANTLEY: Oh, my goodness, well, we must leave it there. I have thoroughly enjoyed speaking with both of you today. Thanks so much to Bob Sulentic, President and CEO of CBRE Group and Mason Morfit, Partner, CEO and Chief Investment Officer at ValueAct Capital. Over to you, Barbara.

PRESIDENT BARBARA VAN ALLEN: Thank you, Shartia. That was just a fantastic conversation. And for all of us that believe you get what you measure, I think you gave us a lot of great detail on how we can really get around to measuring ESG in a real way that matters. So thank you.

I'm pleased to report that we have many prominent speakers lined up for the fall. And as always, we encourage you to invite guests to join us. On November 8th, we will have Pat Harker, President and CEO of the Federal Reserve Bank of Philadelphia. He's also a member of the Club so we're excited to be hosting him. Scott Shay, CEO of Signature Bank and Alesia Haas, CFO of Coinbase will be with us on November 16th, and that will be exciting. We'll be talking quite a bit about obviously cryptocurrency and distributed payments. We have a panel coming up on November 17th with Joyce Brown, the President of the Fashion Institute of Technology in New York, and Brandice Daniel, Founder and CEO of Harlem's Fashion Row, together with Terry Lundgren, our former Chair of the Club and former CEO and Chair of Macy's. We then will follow that with Robert Zimmer, Chancellor of the University of Chicago, and he will be talking about freedom of speech and privacy, some of the issues that we've all been thinking about in the world, the digital world we exist in today. Carla Harris, Vice Chairman of the Global

Wealth Management Division, and Senior Client Advisor at Morgan Stanley, will be joining us December 7th. And then we will have Ken Bentsen, the President and CEO of SIFMA, together with Dr. Lindsey Piegza, Chair of the Economic Roundtable, and SIFMA Chief Economist from Stiefel Financial, also on December 7th. And, of course, keep your eye out for our first in-person event in 18-19 months. December 9th, we'll be returning to a hybrid with the in-person element with the Secretary of Commerce, Gina Raimondo, and we are so delighted to be having the chance to host her and to bring everyone together in person.

I think I'd like to just, as we close, thank our members of the Centennial Society that have joined us today as their contributions represent the financial backbone of the Club. And again, a special thanks to the three of you for making this possible today. And everyone, thank you for joining us. Please stay healthy and safe, and we hope to see you at our next event.