In collaboration
with Bain & Company

WORLD ECONOMIC FORUM

Investor Leadership:
Retooling for a resilient future

MEETING REPORT

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Preface

In April 2020, the World Economic Forum, in collaboration with Bain & Company, brought together leading financial investors – institutional investors, private equity funds, pension plans, hedge funds, sovereign wealth funds and venture capital firms. The goal: for this global community of investors to collaborate and share their experiences on actions supporting economic, financial and social recovery during and in the aftermath of the COVID-19 pandemic, through a series of virtual meetings at the strategic (chief executive officer/ chair) level and at the implementation (senior executive) level.

Concurrently, we interviewed a number of investors who took part in these meetings. The investors interviewed represented a broad mix of asset classes, geographies and sector coverage, with more than $1 trillion[1] in assets under management (AUM) combined. The interviews explored the actions they took to help their investments through the recovery period and how they are preparing to retool their businesses to thrive in a future that will continue to be marked by significant uncertainty and disruption.

A number of important questions kept presenting themselves, leading to some naturally recurring themes:

- How can we stabilize and rebuild our businesses, and those we invest in, to emerge stronger following this crisis?
- How can we continue to meet our fiduciary responsibilities, and maintain momentum on our goals of investing with impact and purpose?
- How do we embrace this period of disruption as an opportunity to be leaders in retooling our businesses and to innovate and thrive in the face of change?

This white paper outlines the insights gained from our discussions. COVID-19 forced a significant reset of the investment industry by accelerating existing disruptions and shaking up the macro outlook. This requires that investors:

- **Reset their investment strategy**, revisiting asset allocation, assessing country and asset exposure, and adopting a more activist approach, and **enhance their approach to diligence** across all asset classes
- **Take a new, ESG-focused approach to risk management.** Environmental, social and governance (ESG) is increasingly viewed as a source of value protection and long-term upside for investments
- **Redefine resilience**, which includes resilience of the business itself, with a new emphasis on digital tools and advanced analytics to improve responsiveness and flexibility, and resilience of the people and the organization, while embracing new ways of working and a more holistic approach to talent management

To be successful in the post-COVID-19 world, investors will need to be more active, efficient and digital, as well as being socially and environmentally aware.

We would like to thank the interviewees and their teams, as well as Bain & Company, for their expertise and look forward to seeing investors take a leading role in the economic recovery ahead.

1 Introduction

The fallout from COVID-19 is not just another structural recession. The novel coronavirus is exacting a terrible human toll, bringing whole industries to a standstill, and sending shockwaves through the world economy. It has forced extensive restrictions on businesses and consumers at a time when the world was already grappling with accelerating macro trends – deglobalization, digital disruption (e.g. digitization and automation) and a growing emphasis on sustainability – that were altering the ways we live and work. Government efforts to control the virus's spread have created structural barriers to consumer spending. And even where lockdowns have been lifted, a reluctance among consumers and the ongoing risk continue to curtail spending in the economy. These issues will continue to influence the shape and pace of recovery. Adding to the complexity, different industries have been affected in very different ways: Demand has significantly decreased for some, remained stable for others and, in some cases, has increased dramatically. The shape and speed of recovery also will vary widely by industry.

All of this rendered existing playbooks obsolete, forcing financial investors of all types – institutional investors, private equity funds, pension plans, hedge funds, sovereign wealth funds and venture capital firms – to swiftly devise new approaches and build tools to address these challenges.

When the grim reality of COVID-19 hit, investors were, like most other companies, caught off guard. They scrambled to first make sure employees at their firms were safe before swiftly turning to business: Can we continue to operate? Which investments are most at risk? What actions can we take to protect them?

Among private equity firms and others with alternative investments, those people and operational concerns extended to the safety and viability of their portfolio companies. They moved quickly to access credit lines, using available government support where possible, put the brakes on costs and expenditures, and slashed costs and drew on revolving credit to ensure companies had the liquidity they would need to navigate such an uncertain time.

Their decisions will matter profoundly: Investors are catalysts for economic growth and innovation, and powerful leaders of change in the companies they run and in which they invest. In the US, where private markets continue to gain favour as a source of corporate financing, there are twice as many private equity-owned businesses as there are publicly traded businesses.[2] Although private equity-owned businesses are typically smaller than their listed counterparts, investments in these companies are critical for producing productivity gains, boosting long-term growth and creating better jobs. Investors more broadly play an equally critical role in public markets, as market forces require and encourage them to invest in, and try to shape, the companies within their portfolios. The shape and trajectory of the world's recovery from the pandemic will depend in large part on the actions of its investors.

For all business leaders, recovery has meant restarting and, in some cases, reinventing operations in a world of continued uncertainty. Within the investor community, leaders have also stepped up to provide additional support through efforts such as partnering with governments and offering services at no cost to those in need.

This pandemic has also generated strong tailwinds for the environmental, social and governance (ESG) and sustainability agenda, which was already a growing priority for many investors.[3] The impact of COVID-19 and the social unrest that followed underscored the need for continued focus on governance, but the scope of the crisis also raised the stakes for environmental and sustainability factors, serving as a rehearsal, or at least a warning, for future global crises such as climate change. The pandemic exacerbated inequalities and coincided with universal calls for greater racial and social justice. This highlighted how much the social and governance elements of ESG investing are intertwined.

Having achieved near-term stability, the focus of the investor community has quickly turned towards planning and preparing for a world post-COVID-19. Leaders are beginning to reassess their overall strategies, and, within their investments, are building strong working hypotheses about future industry dynamics so they can define the strategies needed to outperform their competitors in the future. Investors are adopting a future-back approach to redefine their investment strategies and ways of doing business, with resilience at the core.

2 Key findings

2.1 Leading through the recovery

Even investors anticipating a downturn in 2020 were unprepared for the scale of the economic fallout precipitated by COVID-19. And, unlike prior downturns, where the natural focus was the bottom line, the priority as the pandemic advanced was protecting workers and customers. Many were surprised at the ease with which commuting was eliminated and work-from-home infrastructures put in place. Some firms found that existing flexible working arrangements made it even easier. Interviewees in the private equity space noted that the ownership and governance structure of their businesses allowed for quick alignment and action. Now, as all investors chart the return to work away from home, they face another moment of truth to demonstrate leadership in employee and stakeholder safety.

Investors also needed to demonstrate their ability to protect their businesses. For private equity firms and other investors, for example, that included outlining macro scenarios to stress test profit and loss (P&L), quick revaluation of the portfolio and investment thesis, and adjustment to the "new normal" of engagement with their management teams.[4] Many turned their investment teams into small armies of expert advisers to support the management at their portfolio companies. Senior leaders at those companies moved quickly to establish "war rooms" to manage day-to-day crisis response, set up a spending control tower to manage costs and initiate immediate action planning on revenue, operations and liquidity. These practices will be models for future crises.

2.2 Charting a renewed social agenda

Even before the pandemic, broad shifts in society were translating into demands from limited partners and institutional investors for a greater focus on ESG factors. The crisis has, if anything, strengthened such demands. In July, for example, the Canadian Pension Plan Investment Board (CPPIB) updated its policy on sustainable investing and specifically outlined its support for companies whose reporting aligned with the requirements of both the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD).[5]

The industry has long been strong on governance, and climate change concerns had already prompted an increasing emphasis on the environment in recent years. But the crisis underscored the need to address all elements of ESG more holistically. The social and systemic inequalities spotlighted both by the pandemic and the Black Lives Matter protests sharpened an already keen stakeholder appetite for a stronger social agenda, with particular emphasis on job protection, worker safety, and diversity and social equity.

Playing a leadership role in governance

Within the industry, governance has been on the agenda for longer than the other two ESG factors, and continues to be applied widely by many investors. This is in part due to the relative ease of measuring progress in governance-related matters – such as board composition or voting rights – and because of its demonstrable impact on financial performance.

Citing research showing higher returns from companies with higher female representation among directors, for example, the CPPIB has repeatedly used its voting power to push for greater board diversity. In 2017, it did so at 45 Canadian companies with no women directors. A year later, nearly half of those companies had added a female director. In 2018, it voted at 22 companies with no female directors – and ultimately voted against the nominating committee chair at six companies and against the entire nominating committee at seven. It has urged other large institutional investors to take similar actions to accelerate board diversity.[6]

Governance has remained a "hygiene factor" to manage risk through COVID-19, with investors focusing on topics including board diversity, fair sourcing, transparency and reporting, geopolitics and cyber risk.

Accelerating momentum on existing environmental and sustainability commitments

Investor engagement in sustainability has been building since the 2007–2008 financial crisis. Institutional investors are looking to lead by example, and investor priorities are evolving in response. The Ontario Teachers' Pension Fund (OTPP), for example, which has more than $200 billion in net assets,[7] first formed a Climate Change Working Group in 2007. Since then, it has actively promoted the integration of environmental considerations into investment decision-making. This year, it joined with investment manager Wellington Management and the Woods Hole Research Center to advance the integration of climate science into investment valuations.[8]

Understanding the impacts of climate change and other environmental risks is increasingly coming into investment and business decision-making. OTPP's actions are just one example of the increased momentum among investors in terms of investment choices, such as investment in renewable energy, and the ways in which asset managers are planning for the inclusion of environmental factors in risk management. This momentum has been driven, in part, by the increasing ability to measure these efforts; however, there is significant room for the industry to make this a core and consistent part of how it manages its investments, as well as to witness demonstrable links to the financial upside.

Driving a step change in the social agenda

The social agenda has experienced the most growth in terms of focus from investors in recent years, but it remains an area for which there is not yet a proven playbook for financial returns. COVID-19 coincided with, and indirectly contributed to, widespread protests and activism focused on racial equity in the US and across the world. Several investors have embraced this as an opportunity to support broader social agendas through the evaluation of their own operations and those of their portfolio companies. Actions include providing training, maintaining a focus on diversity and inclusion (both within their own organizations and those in which they invest), partnering with the public sector to provide funding or making targeted investments that support social goals.

Blackstone, for example, has taken a firm stance to increase the diversity of its workforce. It has altered its recruiting strategy to cut back on hiring from investment banks, which have traditionally lacked diversity, and expanded its on-campus recruiting. It recently announced plans to recruit from 44 schools this year, up from nine schools in 2015, including historically black colleges and universities, and women's colleges.[9]

Vista Equity Partners' founder Robert Smith has also used his position in the investor community to issue a broad call for the US's largest companies to donate or invest 2% of their earnings towards closing racial opportunity gaps across financial services, healthcare, telecommunications and other parts of the economic infrastructure that have historically underserved minority communities. For example, he suggests that the US's largest banks devote those funds to fund the core Tier 1 capital of community development banks and minority depository institutions in African American and Latinx communities.[10]

These and other examples suggest that a more holistic approach to ESG is likely as stakeholder expectations about investor responsibility continue to increase.

2.3 Retooling for a resilient future

Leaders across the investor space are taking action to prepare for the new normal and make their firms more resilient. While their approaches to this retooling vary by investor type, the first step for all was to revisit their portfolios and their approach to investing. Does our investment strategy or thesis still hold? Are the reasons for our investments still true today versus before COVID-19? Only once those questions were answered could firms turn to the critical task of retooling their own operations and their investment strategies for the long term.

Retooling within investment firms themselves

For leading investment firms, retooling within their own organizations includes a variety of actions:

Revisiting investment strategy, and improving risk management through more active involvement. Investors are revisiting their approach to asset allocation (re-evaluating their asset and geographic exposures) and embracing more active approaches to management in order to maintain greater responsibility over outcomes. Investors are seeing the benefits of more active management. This is especially true in select asset classes such as private equity, where a simplified ownership structure and governance framework enhances the investors' control of outcomes and the ability to implement changes quickly to their benefit. As COVID-19 highlights new forms of disruption, investors are also redefining their approach to diligence to prepare for and manage future risks.

Embracing virtual ways of working, moving from analogue to digital. In forcing a move to remote ways of working and an increased reliance on technology, COVID-19 has highlighted, for many firms, that a significant number of the processes in the industry are performed manually and therefore less efficiently. Most organizations found the transition to a virtual model easier than they anticipated, and they are rigorously looking for opportunities to embed these changes more permanently into their businesses. Such changes will affect operating models, relationship management and approaches to investment.

Defining advanced analytics, data and digital transformation as the new frontier for top performance. The shift towards digital and the use of data and analytics, accelerated in part by COVID-19, has forced investors to rethink their approach along the entire value chain, from deal-sourcing through to exit strategies. Leading firms are increasingly using artificial intelligence (AI) and algorithms in sourcing and diligence, adopting a more venture capital-based mindset to value creation – with technology at the core – and are exploring new ways in which digital technologies can unlock efficiencies along the value chain.

Acquiring a more holistic skill set and approach to talent management for the world of tomorrow. COVID-19 has fuelled the understanding that new skills are required in order to remain resilient and compete in an industry that continues to face disruption. This requires a more holistic view of talent, one that encompasses teams with hard and soft skills, and is comprised of both executors and visionaries who can pre-empt and address anticipated disruptive forces. Leaders are tapping into new sources of talent to strengthen their internal capabilities, and are adapting their operating models and culture to attract, retain and ensure resilience among their people.

Retooling for direct investments

Among firms that have portfolio companies or invest directly in real assets, such as private equity firms, hedge funds or venture capitalists, leaders also are taking action to build resilience across the businesses they own or invest in:

Defining a range of macro scenarios to serve as guideposts. The first step in revising strategic planning is defining these scenarios and their leading indicators or triggers.

Deriving industry-specific demand curves. The effects of COVID-19 on consumer behaviour and the magnitude of the downturn vary widely by industry. Identifying likely demand trends enables investors to focus on the right priorities. [11]

Designing defensive and offensive strategies to grow share. Defensive strategies include adapting the operating model, retooling supply chains to be more resilient and adjusting costs to match the pace of recovery. Offensive strategies focus on gaining share in existing markets or expanding into attractive adjacent markets.

Preparing for accelerated disruption. The pandemic significantly accelerated disruptive trends such as online retail and e-health, forcing investors to adjust their level of investment in digital transformation, new channel penetration, analytics and other capabilities within portfolio companies.

Supporting broader recovery efforts of society

Many investors took a leading role in supporting recovery outside of their immediate businesses, through partnerships with governments to support crisis relief efforts, or through contributions; for instance, one firm gave $200 million to support response efforts in regions with underfunded national healthcare systems.

But the largest impact investors will have on the global recovery will be through the choices described above – how they invest and where they inject their capital across a broad spectrum of businesses and industries.

For example, Singapore state investor Temasek Holdings injected more than SGD$15 billion (USD$10.5 billion) into Singapore Airlines, supporting a larger national economic strategy to be a hub for technology and other industries that depend on a working airline.

Private equity firm Brightstar, meanwhile, observed that while both small businesses and large public companies received government support in the immediate aftermath of the pandemic, mid-market companies fell through the crisis funding cracks. This offered Brightstar an opportunity to partner with families, founders and entrepreneurs, providing capital for investments in critical system upgrades, helping consolidate fragmented suppliers, and providing expert guidance.

At the end of the crisis, Chief Executive Officer Andrew Weinberg wrote in July that investors "will not be measured by how many more deals we picked up at a good price. We will be judged by how we helped our portfolio companies and their communities succeed in a profoundly changed world."[12]

3 Case studies

3.1 GIC

At a glance

> **There are five key pillars that are important to evaluate when retooling for the future. First, reassessing your investment strategy, and understanding how it should change in the new environment. Thereafter, evaluation of your employees, clients and partners to understand how their needs have evolved and adjust accordingly. Lastly, firms need to keep a strong focus on capital preservation and their raison d'être to ensure resilience through future periods of uncertainty.**
>
> Lim Chow Kiat, Chief Executive Officer, GIC

GIC manages a diversified portfolio of well over $100 billion of public and private assets across more than 40 countries worldwide. The firm invests for the long term, with a focus on intrinsic value and price discipline, to preserve and enhance the international purchasing power of Singapore's reserves under its management.

Beyond serving as a rainy day and stability fund, returns from GIC's funds provide resources for annual government spending to benefit Singaporeans.

For Lim Chow Kiat, Chief Executive Officer of GIC, resilience is the ability to adapt quickly, and is achieved by diversification, quality operations and strong relationships. The pandemic highlighted the importance of building trust with various stakeholders over many years. The firm reaped the benefits of having long-standing relationships with many partners as it navigated the pandemic in a virtual world. GIC also benefitted from having conducted more than 20 years of annual business continuity exercises and having built up the necessary infrastructure that has enabled seamless remote working. These experiences have enabled the firm to respond to the crisis in a relatively rehearsed and stable manner.

Throughout the crisis and even over longer periods, GIC has found that the companies which weathered downturns better were often those that paid more attention on the ESG front. In recent years, GIC has stepped up its focus on the "E" element, such as climate change, beyond its traditional focus on "S" and "G". It is more closely integrating ESG aspects into its internal investing process, and working with peers and other stakeholders to encourage companies to accelerate their transition towards a more sustainable path.

GIC believes that tending to a company's financial performance need not be at odds with ESG efforts. Indeed, it believes the focus on ESG highlights the risk and fragility of those firms that are slow to act. With the right approach and tools, both the finances and ESG can thrive over the long term. GIC strives to accomplish this by

working closely with investors and other partners in order to promote ESG initiatives, such as reducing the carbon footprint of portfolio companies around the world.

Post-pandemic, GIC expects broad market returns to be much more volatile, and less reliable, than they have been in the past. Across capital markets, the risk-return line has been lowered, and GIC believes returns will fall as interest rates remain low. While central bank intervention may provide a liquidity boost in the shorter term, GIC does not have confidence that historical return will be easily repeated in the future, given the reliance of asset valuations on lower discount rates rather than increasing cash flows.

As a result, GIC sees a shift towards more proactive management and engagement as tools for investors to achieve good investment performance in the future. GIC is pursuing a more active role by closely engaging with and adding value to its investees, external managers and other partners, such as offering its extensive global network and co-investment opportunities, building new platform companies and extending its participation to the earlier parts of the investing value chain.

GIC believes that COVID-19 exacerbated many pre-existing problems and imbalances in the market. For example, COVID-19 has brought to light the challenges faced in recent years of looking for yield amid high valuations. In addition, more debt has been added to the already stretched balance sheets of both the public and private sectors. The aggressive policy interventions recently implemented, while necessary to bridge the loss of incomes, have also added to the fragilities in the face of potential new shocks. Finally, GIC worries about rising geopolitical tensions that continue to inject uncertainty in the market.

At the same time, GIC believes COVID-19 has also brought certain opportunities to the forefront. Beyond obvious investing opportunities in growth sectors such as healthcare and online services, GIC sees capital needs in disrupted sectors such as infrastructure and real estate. With continued advancement of technology, it has also been increasingly leveraging on data and "invest-tech" in decision-making in order to analyse and manage new types of risk and opportunities. New institutional grade asset classes are likely to emerge from such advancements.

GIC envisions a world with more divergences and dispersions. Successful investing will require the ability to pick its spots and make a detailed investigation into specific countries, sectors and assets. Granularity and agility will be more prized in the new environment – in contrast to the past, when trends were more uniform and persistent. Most importantly, GIC reminds itself to be clear about its mission and values, and keep its long-term orientation even as it navigates these profoundly uncertain times.

3.2 CVC

At a glance

> **People often look at investors purely as a source of funding for the economy. However, the primary role of investors is, and should be, to identify companies that are fundamentally making a positive impact, and to invest in them to make them even better. Furthermore, the benefits from focusing on ESG and sustainability are not always linear; you often are having to make a large investment in the short term, and only benefit from larger payoffs in the long run – a trade-off that we believe is the right one to make.**
>
> Steve Koltes, Co-Chairman and Co-Founder; Rolly Van Rappard, Co-Chairman and Co-Founder; and Peter Rutland, Managing Partner, CVC

With more than $80 billion in assets under management (AUM), CVC is a leader in private equity and credit that invests in high-quality businesses with competitive leadership positions in their respective industries.

Over the past 30 years, CVC has worked to build a diversified portfolio, with a focus on businesses that are less exposed to cyclicality, which has proven very effective in maintaining performance through the pandemic. As a global firm, with, among others, an Asian fund, CVC was also able to react quickly as the virus spread, helping to raise the awareness of its US and European limited partners (LPs) and chief executive officers ahead of time.

CVC's first step in recovery was to create COVID-19 task forces to respond to the challenges faced

by the firm. CVC credits the speed with which its employees and partners adapted to newly established roles, communication styles and ways of working with helping to significantly shorten its crisis management period. It also over-communicated with LPs to build trust and ease concerns among investors during the crisis.

CVC believes that COVID-19 has heightened the investment community's sensitivity to ESG issues, and in many cases has brought these issues much closer to the core of fund business models. The firm does not see ESG as a trade-off, but rather as a critical part of ensuring the long-term success of any business.

The pandemic has accelerated CVC's approach to its carbon footprint – in the medium term, it has an ambition for CVC and its portfolio companies to become carbon neutral. Investors expect a firm of CVC's size to have a firm handle on governance-related issues and its leadership is confident in its current approach. CVC believes, however, that the social inequalities highlighted by COVID-19 and protests in the US and elsewhere over racial injustice will pull these issues to the forefront of the ESG agenda. As the firm navigates its global investments, it will need to take into account different histories and cultures in a variety of countries, while building a system to measure the impacts of its investments.

CVC believes that its primary focus should continue to be upholding its fiduciary duty and generating positive returns and that the responsibility of investors is to invest in and fuel sustainable growth within companies.

Private equity investors can and should play a role in advancing the ESG agenda by investing in companies that are expected to both generate returns for shareholders and have a positive impact on the communities in which they operate. The firm has recently invested in EcoVadis, a company that helps businesses track and quantify their ESG impact, and will deploy its tools across its portfolio companies in an effort to increase the quantification, transparency and reporting of ESG efforts.

CVC sees retooling more as a shift in mindset rather than a shift in strategy. Over the past few months, the world has changed and CVC aims to better understand the geopolitical context of the unique situation that each of its more than 80 portfolio companies occupies. It plans to focus on ensuring that the management teams of its organization and its portfolio companies are equipped to be agile in adapting their businesses to new realities quickly.

Among the lessons of the crisis, the shift to working from home revealed the importance of effective organizational communication. CVC's ability to hold meetings and engage staff virtually around the globe has proven to be a great asset to the firm and its pandemic response. The pandemic has also slightly altered the firm's definition of a "quality" business by revealing that businesses that are reliant on personal contact are less resilient than those that are not. This has informed new strategies and targets for investment for the firm.

CVC believes the biggest changes in the private equity industry will involve a basic retooling of interaction and communication to make processes easier and more effective from remote locations.

3.3 RockCreek

At a glance

> **When it comes to building resilience, there are two important factors: first, resilience of your people, which depends on firm culture and innovation in the face of change; and second, resilience of your investments. Having a healthy, well-supported and thriving workforce is critical to success, and makes it easier to address sustainable growth imperatives of a business – even more so in times of crisis.**
>
> Afsaneh Beschloss, Founder and Chief Executive Officer, RockCreek

RockCreek is among the largest diverse and woman-founded investment firms in the world, with a focus on investing in sustainable long-term value and in inclusive companies. RockCreek uses data-driven technology to integrate and advance impact considerations in public, private, and early stage investments. Its founders have a long history investing in climate related and renewable energy projects since the 1990s, and team members led the first Green Bond issued by the World Bank. The firm has developed one of the industry's largest sources of data and intelligence on global impact and ESG investments.

As part of its portfolio, RockCreek has invested $6 billion since inception in firms started by Black, Latinx, Asian, and women founders, generating

strong returns. It has continued with these investments in the economic fallout from the pandemic and RockCreek believes these will continue to generate long-term value.

At RockCreek, COVID-19 has highlighted the need for increased coordination among various stakeholders in the private and public sectors. So many months into the crisis, the continued shortage of basic necessities, such as masks, cleaning products, and testing materials, has led to competition among hospitals, cities, and states. The level of coordination we would have expected from governments, across healthcare and finance, has been largely absent, highlighting an opportunity for private companies to focus on environmental, social, and governance issues that play a role in their business and the broader economy. Private investment firms are uniquely situated to coordinate with other stakeholders, such as local and national governments, to address the issues that have arisen from COVID-19.

It has become even more evident during the pandemic that private investments need to focus on impact because it is beneficial for businesses, both in terms of long-term value creation and value protection.

Growing investor demand for more transparency on how businesses are integrating ESG factors means that metrics and measurement will play an even more important role going forward. While progress along environment and governance factors has become easier to measure over time, social factors continue to be a challenging area in terms of measurement, perhaps because of the longer-term horizon for impact from social change. Despite the challenge, RockCreek believes that data and measurement can be enablers for investors.

The crisis highlights the interplay between ESG principles and company performance. For example, RockCreek's focus on inclusion, which long predated the crisis, instills a culture of flexibility. Its efforts to provide a better work life balance for its more inclusive workforce included significant technology investments, which made remote working and flexible work options possible.

At the onset of the crisis, the firm quickly adapted to a remote working model. Similarly, for team members who have preferred to work in the office, we have planned safe environments.

Similar examples exist outside of RockCreek, in which a greater focus on the social well-being of the workforce is not only good for employees, but for the business and consumers. In the U.S., for example, many agriculture and food industries were closed, and shortages ensued after many workers fell ill. Investing in worker health, safety, and fair compensation allows employees to perform their jobs well and to thrive. Beyond the crisis, investors will shift investments to include impact considerations as people seek to lead better lives and change the ways they commute, eat, and shop.

For RockCreek, resilience of both the workforce and investments remains critical for continued success, especially in this extended period of uncertainty. The road ahead will be both emotionally and physically demanding for teams. RockCreek continues to focus on creating a supportive environment that is mindful of the wellbeing of its team, while supporting local communities and essential workers, and providing meditation and book clubs for its own community. This ensures the team can withstand the increased pressures brought on by the crisis and maintain a high level of focus on their work, dynamic spirit, innovation, and wellbeing. This also means ensuring an inclusive culture with openness and the sharing of ideas across team members, irrespective of age and background, and being flexible about work location and other needs of team members.

With increased volatility and uncertainty in the markets, RockCreek believes private portfolio companies will need to ensure resilient portfolios – for example, through better supply chains – and investors will need to ensure their investments are geared towards industries anticipated to drive growth in the future.

The changes induced by COVID-19 will drive leaders to continue investing in talent, even as people become more discerning about where and how they work. To improve their competitive performance, the investor community will need to strike the right balance of focus, human and heart, and ensure their teams are happy and thriving.

3.4 Brightstar Capital Partners

At a glance

> **The immediacy of the crisis has made it imperative to partner with mid-market portfolio companies that are the economic engine of the US, investing capital and sharing best practice across the partner network. Information sharing and increased transparency will become increasingly important post-crisis as a means to create and maintain trust among stakeholders.**
>
> Andrew Weinberg, Founder, Managing Partner and Chief Executive Officer

Brightstar Capital Partners is a private equity firm with $1.9 billion assets under management (AUM) that focuses on investing in closely held, mid-market companies with revenues of between $50 million and $1 billion. Brightstar targets well-established companies with resilient end-market demand in fragmented industries that offer an opportunity to build and scale platforms.

The way Brightstar had set up its operating model prior to COVID-19 was instrumental in the firm's crisis response and recovery efforts. For example, it already had a geographically dispersed network of offices and so was able to quickly adapt to remote working practices. The firm expects to build on this and adopt a hybrid workforce model. Its team structures – both among its investors and its operators – were also flexible, which provided greater resilience.

The speed and severity of the pandemic's impact on mid-market companies through the crisis reinforced Brightstar's approach of partnering with families, founders and entrepreneurs in that market segment. These partnerships enabled Brightstar to be responsive to local needs, inject capital where needed, provide experienced leadership guidance and share best practices across its network. Some of those best practices were shaped through other networks of which Brightstar is a part.

Brightstar's leadership also views COVID-19 as an opportunity for private equity firms to build or strengthen partnerships with the public sector, offering both information sharing – to build trust through increased transparency – and support for direct recovery efforts. Through some of its portfolio companies, Brightstar has been able to help national and local governments with specific needs during the crisis. For example, one of the firm's portfolio companies was able to rapidly provide equipment to the UK's National Health Service to support contact-tracing efforts.

Sustainability and social principles have long been at the core of the family-owned businesses in which Brightstar invests. However, Brightstar has continued to inject ESG lessons from the crisis into its portfolio companies. In particular, the pandemic has highlighted the importance of mental health and the well-being of the workforce—social considerations that Brightstar believes will remain highly relevant even after the pandemic.

Financial returns remain Brightstar's number one priority, given its fiduciary duty to its investors and their beneficiaries. However, its leadership maintains that a well-executed focus on ESG and sustainability will not create a trade-off in economics. And they note that investing with an awareness of long-term strategic ESG drivers complements the "patient capital" approach of private equity.

In the short term, the firm's focus has been on cash and liquidity. Its longer-term priorities include expanding its risk management toolkit to incorporate extreme scenario planning for the future, having strong feedback loops – within the firm, its portfolio companies and with LPs and institutional investors – and a physically dispersed operating model to adapt to new norms and get closer to new opportunities.

Looking to the future, Brightstar's leadership identifies three key forces to shape the industry. First, COVID-19 accelerated many trends, most prominently the digitization of industries. It has also forced companies to fundamentally rethink their operating models in an increasingly virtual world. This has been a significant shift for the investment industry, which has traditionally relied heavily on physical contact. Second, remote working has been stress-tested and has proven viable and productive during the crisis. However, the firm does not anticipate a full shift to remote working in either the near or mid-term. Third, the firm's leadership believes the social and community-related issues highlighted during the pandemic – including the way businesses interact with both their staff and customers – will continue to be extremely relevant.

All of these changes placed a higher premium on transparency and communication for investment firms – both with their portfolio companies and their investors. Brightstar believes this was key to

weathering the crisis and will remain critical, though its forms may evolve. Much of the communication and sharing of best practices took place over virtual networks that were once largely physical and depended on in-person meetings.

Brightstar's leaders also stress the growing importance of talent in a future world where resilience is a critical strength and execution will be a key differentiator. Only with the right talent, Brightstar believes, can firms remain agile in in adapting to changing circumstances.

3.5 Capricorn Investment Group

At a glance

Moral hazard risk has increased as the pandemic has highlighted the disconnect between capital markets and governance systems. In the US, for example, capital markets have benefitted in the midst of an economic recession through COVID-19. With this in mind, it is important for the investor community to see the pandemic as an opportunity to drive real change both within and outside of their businesses. Will corporate leaders respond to this call?

Ion Yadigaroglu, Managing Partner, Capricorn Investment Group

Capricorn Investment Group is an asset owner with a focus on sustainability and impact investing. The firm directly oversees approximately $6 billion of client assets under management (AUM) and, since 2004, has created multiple investment partnerships that manage $3.5 billion.

COVID-19 highlighted the opportunity for investors to take an active role in supporting broader recovery efforts – a notion that aligns with Capricorn's broader ambition of using market forces to provide solutions to persistent global problems.

Capricorn, and its founding investor Jeff Skoll, have always viewed the occurrence of a pandemic such as COVID-19 as a real possibility. Among other efforts at publicizing the risk, Skoll's Participant Media co-produced the 2011 movie *Contagion*.[13] The uncertainty lay in *when* such a crisis would occur. Yet previous health crises such as Ebola and H1N1 swine flu failed to generate the same levels of public attention and government intervention as COVID-19. Capricorn believes this current crisis is an opportunity for leaders to finally enact real and long-lasting changes within and across industries.

Via the Skoll Foundation, Skoll has committed $200 million towards COVID-19 response efforts, half of which has been spent supporting African countries with relatively underfunded national healthcare systems.

Capricorn has also leveraged the crisis to influence public education on future crises. The firm sees the unprecedented level of public attention as a platform for businesses to drive awareness of other existential issues, such as climate change, and to encourage societal preparedness.

Capricorn is pursuing this endeavour through its involvement in educational media targeted at high-net-worth and institutional investors, the anticipated outcome being a movement of investment capital towards sustainable and impact-oriented practices and technologies.

As a certified B Corporation, Capricorn has kept ESG on its agenda for the past 20 years, with the core belief that sustainable investment practices can enhance long-term risk-adjusted returns. In addition to social and governance factors, Capricorn has maintained a focus on the environmental and sustainability agenda. These topics remain relevant throughout the crisis, and the firm's leadership believes they run the risk of being overshadowed by more immediate COVID relief needs, potentially creating a more disruptive and lingering crisis than COVID if left unaddressed.

Capricorn's leadership believe there is more that investors can do to adopt ESG. Currently, they say, investment in ESG is largely a risk mitigation strategy and incentives in the industry are still aligned with shareholder obligations and financial returns. Global governing bodies and shareholders can help change this by holding leaders accountable for important ESG-related issues and can explore tactics to encourage adoption, such as tying chief executive officer bonuses to ESG goals.

As Capricorn's leaders look to the future, they recognize that the most interesting and innovative work is typically born out of necessity, often after large shocks, and is largely driven by companies that have experienced the most stress. Some within the investor community, and in industries such as technology and healthcare, have enjoyed positive

returns through the crisis. Other industries have gone through near-death experiences, leaving them no choice but to retool to ensure their survival. In all cases, the crisis has highlighted how essential it is to have resilient strategies and operations.

Although Capricorn anticipated the crisis, it has guarded against its own complacency by driving a self-imposed sense of urgency to retool for the future. The firm is continuing to challenge itself to determine how best to create the maximum number of sustainable jobs with the least amount of investment dollars – an ambition that it believes will extend beyond the crisis.

3.6 Washington State Investment Board

At a glance

In the past, private equity firms have often been able to enjoy working outside of the public eye; however, with the continued capital inflows to private-market investments, LPs and other partners will increasingly exert more direct pressure on GPs in terms of transparency around fee structure, hiring practices and workplace diversity. In addition, COVID-19 has tested the strength of societal infrastructure and illuminated the value of human capital, presenting a need for investors to maintain a focus on ESG-related factors through their recovery actions and after the crisis.

Theresa Whitmarsh, Executive Director, Washington State Investment Board

The Washington State Investment Board (WSIB) is a public asset manager that manages $139 billion in state pension, insurance, endowment and foundation investments. WSIB invests globally through a range of asset classes, with a strong focus on private assets, including private equity, real estate and tangibles, which comprise 50% of the pension portfolio.

Over the 10 years following the global financial crisis, WSIB has focused on building resiliency into its investment approach. It reduced leverage in its direct real estate holdings, increased diversification of strategy and holdings throughout its asset classes, and improved its liquidity position through significantly increased holdings of treasury securities. It also takes a long-term view and structures its portfolios to weather short-term economic downturns.

As a primarily passive public equity investor, WSIB has increasingly considered active management through the crisis, learning from its private asset holdings that more control over its investments could tangibly influence performance in the future. WSIB believes that other passive investors in the industry may also re-evaluate increased active management.

WSIB's leaders say the crisis underscored the potentially detrimental outcomes for companies that focus on short-term performance and shareholder primacy, as opposed to those that build a long-term, holistic stakeholder view into the core of their business models.

The pandemic has also brought attention to both the critical role of societal infrastructure, such as hospitals and public health facilities, and of diverse human capital, presenting an opportunity for increased attention to partners who prioritize these matters.

The investment community has historically seen ESG as an ideologically driven, values-based movement. Over time, the development of measurement tools has enabled investors to meaningfully apply ESG criteria to investments in order to effectively mitigate the risk of value destruction, as well as to price-in externalities. But an ESG focus can also strengthen growth prospects. WSIB's leadership believes building companies with a differentiated understanding of multi-ethnic and multigenerational employees and consumers will be a great opportunity to create value.

Governance has always been a focus for WSIB, but it expects this to become even more critical. Well-governed companies perform better in the long term and can focus on an array of ESG initiatives. They are more likely to have fair labour practices, make environmentally conscious decisions and position their businesses to effectively manage externalities.

In addition, the "S" in ESG will gain focus now that the pandemic has starkly highlighted the imbalance between the value put on labour versus that on capital.

WSIB's private equity allocation is one of the largest of any public pension plan and its leaders predict that the massive capital inflows to private equity will make it harder for private equity to operate out of the public eye, with pressure on GPs and LPs increasing.

Likewise, the GP/LP relationships continuum will continue to evolve as LPs begin to flex their muscles more than in the past. WSIB has begun to ask more from its GPs in terms of fee transparency, hiring practices and workplace diversity.

The industry will also likely see fundamental changes to the due diligence process, in that private equity firms and their investors will now begin to consider a broader set of externalities in their analysis, after seeing the potential for value destruction.

3.7 BC Partners

At a glance

> **Demonstrating agility has been a key differentiator in investors' response to COVID-19. The unique ownership and governance structure of private equity firms allows them to quickly foster alignment across shareholders, management, and full organizations – lessons that will be relevant for their public-sector counterparts following the crisis.**
>
> Jean-Baptiste Wautier, Partner and Member of the Executive Committee, BC Partners

BC Partners is an alternative investment manager focused on private equity, credit and real estate, with expertise in Europe and North America and approximately €25 billion ($30 billion) in assets under management (AUM) in private equity. As one of the original pan-European buyout firms, BC Partners has invested across geographies with a range of strategies for more than 30 years.

Although BC Partners' existing contingency plans and toolkits did not anticipate a global pandemic on the scale of COVID-19, the firm believes that its private equity ownership and governance structure allowed it to quickly foster alignment among shareholders, management and portfolio company organizations and adapt its strategy and operations.

In the short term, the health of employees and liquidity concerns of portfolio companies were obviously top priority. But BC Partners was also careful not to lose sight of the medium- to long-term strategic implications of the pandemic on its investment thesis for each of its portfolio companies, ensuring they were equipped to bounce back.

As an example, the firm worked with Keter, one of the world's leading manufacturers of resin-based furniture, to ensure that it could thrive during the crisis by drawing on multiple factors. The company leveraged the increased consumer demand for home and garden products, capitalizing on the fact that people were confined to their homes and eager to improve their personal spaces. In addition, Keter took advantage of its short supply chains (which were in place pre-COVID-19), to ensure that production and distribution were not severely affected and that its e-commerce platform was further optimized. This was supplemented with rigorous cost control and a sustained focus on ensuring adequate liquidity to guarantee that the business weathered the uncertainty and protected its workforce. As a result of these measures, Keter is one of BC Partners' most impressive COVID-19 recovery stories.

BC Partners' leadership notes that the crisis exacerbated several existing areas of concern. For example, the pandemic accelerated the polarization between large market leaders and small- and medium-sized enterprises (SMEs), as smaller companies with fewer resources and lower access to liquidity struggled to survive the economic downturn. In many industries, this creates a "winner takes all" situation in which market leaders with the right management and shareholders can grab market share, while SMEs are damaged.

For instance, one study found that 71% of apparel manufacturers reported a large negative impact due to COVID-19, making them among the hardest-hit small businesses. Conversely, large (and predominantly online) companies such as ASOS experienced an improvement in sales during the pandemic. In July, the company reported revenues that topped £1 billion in the four months to the end of June, up 10% from the same period last year.

Likewise, BC Partners' leadership expressed concern about the increasingly unsustainable levels of inequality in society as a whole, which threaten to destabilize economies. The firm believes the private equity industry has a responsibility to preserve economies by working to reduce inequalities across the system, with the support of public markets and governments.

For BC Partners, this has involved a combination of thought leadership and openness, and the promotion of entrepreneurship and diversity over social reproduction, along with the broad use of employee incentives across portfolio companies.

The firm is also committed to responsible investing. Rather than pushing ESG off the agenda due to the short-term challenges it presented, COVID-19 has actually emphasized the importance of understanding long-term risks and considering environmental and social factors as a part of the investment process. BC Partners has long operated with that mindset, having signed the UN Principles for Responsible Investment in 2009, including incorporating ESG diligence in investment committee memos and requiring each of its portfolio companies to undergo annual ESG assessments.

In fact, BC Partners believes that private equity is uniquely able to harness the value of ESG in three distinct ways. First, having direct control over companies, including incentive plans for management, allows private equity firms to actively manage ESG issues and to institute and stimulate changes. This allows the possibility of creating change not just by investing in a small number of "positive" companies, but in improving ordinary ones. Second, the platform of portfolio companies and deep industry expertise of a firm allows it to provide resources and insights that portfolio companies would rarely have access to on their own. Finally, private equity strategies are flexible, and can shift capital away from industries that present ESG risks, such as coal, towards industries that capitalize on ESG opportunities, such as renewable energy.

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Chief Executive Officer meetings have been led by:

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Endnotes

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