Impactive Capital's private-equity approach to ESG-oriented activism

Goldman Sachs Exchanges: Great Investors

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Michael Brandmeyer: Welcome back to another edition of Goldman Sachs Exchanges - Great Investors, I'm Michael Brandmeyer, Global Co-Head and Co-Chief Investment Officer of the External Investing Group at Goldman Sachs Asset Management and your host for today's episode.

Today, I'm delighted to be speaking with Lauren Taylor Wolfe, Co-Founder and Managing Partner of Impactive Capital, an active impact investing firm which aims to drive sustainable returns in public companies through ESG-oriented activism.

Lauren launched Impactive Capital in 2019 along with co-founder Christian Asmar. Today, Impactive Capital

manages about $3 billion in assets. Prior to starting Impactive Capital, Lauren spent ten years at Blue Harbor Group, an activist investment firm. Today we'll be talking about the origin story of Impactive Capital, her role as an investment leader in the industry, and lessons for future generations of women leaders.

Lauren, welcome to the program.

Lauren Taylor Wolfe: Thank you for having me here. It's great to be on the podcast.

Michael Brandmeyer: Lauren, let's start with some background on Impactive Capital for our listeners. When many people think about activists, they think about sharp elbow tactics. And when they think about ESG, they think about trying to make businesses more sustainable, but maybe with less regard for profits. Help us get our head around why your approach is so different and compelling.

Lauren Taylor Wolfe: Yeah. I think it revolves around two misperceptions. One misperception around activism. And then the other misperception around ESG. And what we realized when we started Impactive was that excess returns

really come from misperceptions and positive surprises.

And so, let's start with the activism. In the 1980s and 1990s, activists were mostly corporate raiders. There was a lot of green mail. And then enter in the past decade the activist defense industrial complex. We have a suite of defense bankers, defense advisors, consultants, these are all sharks sort of circling in the water trying to strum up concern on behalf of executive management teams and boards to have them feel vulnerable.

And of course, this makes sense. They earn a ton of fees. So, we totally get it. But I can't tell you how many CEOs call me after we show up in their shareholder base and say, "There are a ton of, you know, bankers or lawyers calling me telling me I need to defend against you and your ulterior motive."

We are different. We try to tell companies, you know, we are engaging up front. Think of us sort of like that Warren Buffett, Katharine Graham *Washington Post* story where she was very worried he had taken a 10 or 20 percent stake. And she was worried that he wanted to take control. And what Buffett said to her was, "Listen, I don't have

shark teeth. I have baby teeth."

At Impactive, we're trying to do the same things. We don't want to come with fangs. We want to come with wisdom teeth. So, think of us like a captive Bain or McKinsey or BCG, we want to stand shoulder to shoulder alongside you. Look out on the horizon. And say, "We're doing a ton of research on your company. Let's work together to make this business worth two to three X over a three-to-five-year period." And I think more and more activists are starting to pursue this sort of behind-the-scenes collaborative engagement. And that helps avoid a lot of time and money with the more aggressive sort of hostile public fighting that we've seen in the past.

The second misperception is around the ESG opportunity. ESG has become a very politicized word lately. And in fairness, you know, a lot of actors were using ESG to raise capital, greenwash something, or sacrifice returns for virtue signaling. And our insight was ESG is not sustainable if it doesn't link to economic returns.

And so, you simply can't approach ESG or sustainability in a broad brush stroke. We try to come to the table in a very

bespoke fashion with companies, with creative ideas that, one, solve the business problem. And two, drive economic return.

And so, what we are focused on, we tell companies all the time, look inward and think to yourself, what matters to your business? What can make you more profitable and valuable over the long run? And ignore the MSCIs and Sustainalytics 50 question questionnaires and checking all those boxes.

And I think a lot of this, I think, makes sense to businesses and corporate boards. And they're more likely to do the ESG initiative if you can directly link it to profit and long-term returns.

Michael Brandmeyer: We always say at Goldman that private equity is the purest form of active investing. In a way, you've brought both a private equity mentality to public investing. And a process for improving businesses sustainability to investing. I think that's what's so intriguing about your approach. The benefits of ESG merged with the benefits of PE. Can we change the world in a pro-business, pro-sustainability way one company at a

time?

Lauren Taylor Wolfe: Absolutely. So, you don't have to be concessionary with returns to improve ESG. We firmly believe that. And we are. Our approach is very private equity in the public market. We run a concentrated portfolio of eight to ten names. The way that we're different is that we're not adding huge amounts of financial leverage to a business. So, it's not as risky. We're not paying some big premium. Right? We're buying these companies at the market. We don't own a majority stake. Right? We own between 5 and 10 percent of these companies.

But we're coming to the table with the same ideas around capital allocation that a private equity firm would. And around ESG, I think we're really unique and differentiated because we help companies think about when you get back to first principles, right, employees, customers, and shareholders, these are a company's three months important constituents. Increasingly, as these constituents, as the younger generation gets older, these constituents are trying to align their two most important assets, which is their time and their money, in a way that aligns with their value system.

And so, if companies can use an environmental, a social, or a governance tool to attract and retain the stickiest customer, the stickiest employee, the stickiest shareholder, what you've done is you've lowered your customer acquisition costs. You've lowered your employee retention costs. You've lowered your cost of capital with the shareholders. And you've become the most competitive, the most profitable, the most valuable company in your industry. And it won't be long before all your competitors take notice, and they'll have to follow suit.

Our big vision is that using this private equity-like approach with ESG in particular, that not only will we change one company, it will be so far the number on in its industry, we'll wind up changing an entire industry.

Michael Brandmeyer: Yeah, that's a big idea. I mean, changing an industry one company at a time is something that really captures the imagination.

Lauren, let's pivot for a minute and talk more about the sentiment towards ESG. It's become somewhat controversial and certainly politicized. Do you think some

of the criticism is valid?

Lauren Taylor Wolfe: I do. Listen, when any time the pendulum swings too far in one direction like it did many years ago and we had a number of products, both authentic and inauthentic around ESG, the pendulum will swing back the other way. But the politicization of ESG, and we have state attorneys generals and governors telling fiduciaries that they can't look at environmental considerations and take them under advisement when they do fundamental analysis, that's simply too risky. Right? This is valid criticism. But back to first principles, like what we were talking about earlier, these are important factors to consumers and employees and shareholders. They will matter to your business. And as long as you link the efforts to economic return, everyone will do well.

Michael Brandmeyer: Yeah, it really lines up well with how we think about impact investing at Goldman and how it's really much more about driving positive change in long-term sustainable business growth than the more exclusionary aspects of ESG investing.

You guys also take a very pragmatic approach as you were

just referencing to investing in ESG. Talk about your frameworks and how you think about those factors in driving shareholder returns.

Lauren Taylor Wolfe: Sure. So, we ask ourselves with any investment candidate four key pass/fail questions. And they're around quality, valuation, time, and engagement. Quality we spoke about before. Is this a high-quality business that can compound that low double digit rates, peak to peak, trough to trough through a cycle?

The second one is valuation. We're underwriting a high teen to low 20s IRR over a three-to-five-year period. Time arbitrage, I think time arbitrage is actually one of the last areas of behavioral competitive advantage in the market. So, we're saying to ourselves everyone's looking for a high-quality business at a very attractive valuation. How are we finding these unique opportunities? It's usually because we're looking out over a three-year period. So, oftentimes, there's misperception around a company misses a quarter or there's a shock in their industry or the market and the shares trade down. And everyone in the hedge fund industry think it's, quote/unquote, "dead money" from now until the end of the year because that's when they get paid.

And we don't really care about that. We're looking out over a three-year period. And that allows us to underwrite, again, the business quality, but also our engagement.

And that brings me to the last one, active engagement. We're looking for active engagement with our companies about both capital allocation, so how are they deploying the capital? Are they operating efficiently? And then also the ESG that we've spoken about.

Michael Brandmeyer: So, let's talk about an example, a situation where your focus on ESG and the ideas that you brought to a company actually lead to changes in more long-term oriented, more sustainable returns.

Lauren Taylor Wolfe: Great. So, a great example is KBR. It's a wonderful company run by CEO Stuart Bradie. When we started looking at the company in 2020, what we realized is Stuart Bradie came in about 2014/2015. And he set out to really shift the business mix at the company.

In 2014 or '15 it was 70 percent energy ENC, which is an engineering and consulting, which is a lower quality business because there's a lot of off balance sheet liability

and risk. And about 30 percent of the business was sustainable tech and government services.

Fast forward to 2020, that had almost flip flopped whereby it was 70 percent government services and about 30 percent the older energy run off ENC business, as well as the sustainable tech business.

We went to the company, and we said, "You had to put a flag in the ground. You really need to eliminate all this energy ENC work because it's riskier. And by the way, you're trading at a 7 - 7.5 term multiple. And you have this opportunity to really grow the sustainable technology business. We see, you know, in the future, demand for things like blue and green ammonia as a baby step to the hydrogen economy. You've improved the government services business. But the real capital, both human capital and financial capital that you need to deploy will be to really beef out that sustainable tech business because that's going to drive your multiple."

And it resonated with the management team. We did something which we've done with a lot of our companies right now is we restricted ourselves. We helped them tell

their story better. We gave them a number of slides to include that their analyst say this is where we were, this is where we are, this is where we're going.

And then we helped them link their business plan to the overall future financial forecast, demonstrating that because they were investing in the sustainable side of the business, they were likely to see unusual future growth.

Fast forward to today, the shares have tripled. And a lot of that was because not only in that first initiative when we went to the company and we helped them rewrite their business plan, but also tell that narrative to Wall Street, we also went into their boardroom to give the board the confidence. And many of the board hailed from both government, but also oil and gas businesses. And we had to convince them that there was enough interest and demand for the sustainable side of the business. So, think decarbonization projects, blue and green ammonia projects, recycled plastic projects that gave them the confidence to make acquisitions and allocate more capital, and human capital, to that area.

Michael Brandmeyer: What was the ah-ha moment for the

management team and the board when you went in? So, you come in. You approach them. You've got these ideas. The initial, maybe, panic subsides or the concerns about an active approaching them?

Lauren Taylor Wolfe: You know, it's a good question. Because Stuart and Mark, the CEO and CFO of the business, and they had a wonderful IR who went on to run a different piece of their business, Allison Vasquez, but they said, "We've already transitioned. And the market understands that." And we said, "No, absolutely not. You're trading at 7 - 7.5 times EBITDA. Everyone thinks that you're still an energy ENC play or you're trading to the lowest common denominator."

And I always tell companies, "The fewer surprises you have for the street, negative surprises, the higher your multiple will be." And so, I think for me, the ah-ha moment was, holy cow, they think they've already communicated this transition. And then, right after they did that Investor Day March of 2021, in that week the couple days after they did that Investor Day that we helped them with, their shares were up 25 percent while the market was down. And they saw, effectively, like a turn of multiple. And they said, "Holy

cow."

And then after that they invited us to come speak to the board. And they were very receptive and open and willing. And they've done a tremendous job. They will achieve their 2025 goals for that sustainable tech business in 2023.

So, kudos to them. They've done a tremendous job. They really are very receptive to advice. It's a great example of where they dialed into the more sustainable side of the business, they actually saw four turns of multiple expansion. So, it's real return. And now I think they're thinking about in the future, is there a way to further highlight that segment of the business?

Michael Brandmeyer: Yeah, no, it's great when the market starts validating what you're seeing as part of the process.

Lauren Taylor Wolfe: And that's part of the reason that time is so important. I'm sorry to interrupt. But part of the reason we need such a long time horizon is we often see things both about businesses and about our engagements that the market doesn't see. So, the longer time horizon we have for the market to appreciate what we see and to

market to validate that we're right, the better everyone will be. Or the better we'll be, effectively.

Michael Brandmeyer: Exactly, well, markets are efficient, but only in the long term as we all know.

Lauren Taylor Wolfe: Correct.

Michael Brandmeyer: Let's take a step back and talk about the macro set up. Interest rates are higher. There a greater focus on profitability in growth companies. How does the macro backdrop set up for opportunities for activist investors?

Lauren Taylor Wolfe: Activist investors are value investors by nature. And so, the rate changes and the focus on true economic profitability and free cash flow bodes very well for activists and value investors.

Activists are also stock pickers. And what we know is volatility is very friendly for the stock picker. So, we see a lot of macro factors just simply supporting us as value investors. But also, as activists we have four key areas. You have the rates. You have universal proxy card. You have

the sunsetting of dual share classes that have IPOed over the past couple years. And then the active versus passive shift. And I'll quickly tick through all of them.

Rates, as we just, you know, spoke about. There's a significant focus on free cash flow and profits. A lot of the CEOs that have grown up over the past, call it decade, grew up where the second derivative mattered. That's the rate of revenue growth mattered most. And now I think these CEOs are going to need to find a profitable business model or find a new job as investors across the market are focused on this.

The second is universal proxy card. In September of 2022, the SEC put in new proxy rules that no longer has an us versus them approach to voting for proxies, right? It used to be an activist would put their slate on a proxy card on the blue card. And the company would have their slate on the white card. Right now, a company is forced to put their activist candidates alongside their own candidates. So, shareholders can mix and match. And this is great for an environment. It makes it easier for activists to get candidates in the boardroom. But more importantly, it makes it easier for shareholders to put in the best possible

candidates, right, and not necessarily the one that might be the CEO's buddy from the golf club.

The third thing is dual class shares. So, in 2021, 33 percent of all IPOs had dual class shares. That was over 50 for technology companies that IPOed. That also coincided with about 47 percent of the Russell 2000 companies were unprofitable. And that was an environment where venture capitalists wanted to be very entrepreneur friendly. It was an animal spirits, money is free environment. And so, they had to compete to get into the deals.

But those dual class shares have sunset provisions over, call it, five to seven years. So, we're going to see a lot of opportunities for actively engaged shareholders to come in and really instill a profit-oriented approach.

And finally, active risk passive, right? So many of the flows have been passive where, you know, a dollar a flow dictates buy or sell, as opposed to, like, looking at fundamentals or returns. With activism, you really are in control of your return destiny, right, because you're helping to pull the levers to unlock value. So, I think we're going to see in the future the very active strategies outperforming.

Michael Brandmeyer: You referenced earlier how your approach tends to be more collaborative. And it stands in contrast to the historical activists that have been featured in many books and movies. But let's talk a little bit about your approach, how it's more collaborative. What is the toolkit for Impactive? How do you guys engage companies? What are the things that you're doing to A, get their attention? B, to sell your ideas? And C, to be a long-term partner for these companies?

Lauren Taylor Wolfe: A lot of activists used to use the governance wedge to get in the door. And they do some work on a company. They'd show up surprisingly with a 13D or slap a white paper on the internet and say, you know, "Surprise. I'm a 5 percent shareholder."

We like to take a very different approach. We're doing private equity level due diligence, so months and months of research. We are doing, call it, 50 to 100 long-term interviews with former employees, customers, competitors. We oftentimes do customer surveys of 100 or 200 customers.

And so, by the time we're sitting down with the management team, we have a view of the business and the opportunities to accelerate value. And again, we really try to take a more collaborative approach.

We tell them, "Here are our ideas. We'd love to have a conversation about them." And we position ourselves as really a captive Bane, BCG, McKinsey and say, "We have a lot of alignment with you. We care about most is that this company is worth 2 or 3X over a, call it, a three-to-four-year period. And we want to help you get there. There's no pride in authorship. Tell us where we're wrong. We could be right about things. We could be wrong about things. What do you think?"

And I think taking that more collaborative approach, putting the engagement upfront in our process, and also when we come to the table when we first started the conversation, we spoke about how you can link environmental, social, and governance initiatives to return. When we come to the table with a unique idea in your segment in particular, companies often say, "Huh, how come we didn't think about that?" It solves a business problem.

We have this great company, Asbury, where there's a labor shortage across the industry of mechanics. And we said, "Why don't you offer maternity leave or why don't you target women, they represent less than 2 percent of mechanics, but to dominate your industry as customers. And four-day work weeks, two shifts during the day do allow for childcare and elder care." And they hadn't necessarily thought of this. But it was sort of an ah-ha moment.

So, to the extent we can come to the table with these unique, bespoke ideas around ESG that solve a business problem, that accelerate returns, and most importantly, they flag us as long-term shareholders. Because these are cultural changes that are not going to take place in a quarter or two. They're going to take place over a couple of years. It flags us as a long-term investor and creates a level of trust. And trust is the most important thing in any relationship. And we're seen as, really, very well aligned.

Michael Brandmeyer: Let's pause on that for a second. It's such an innovative idea and I think it really brings to light why what you're doing is so unique, this idea of going to a

company where the labor force is mechanic heavy and saying, "Here's something where you can shift the whole paradigm and have more women in your workforce, which is, last time I checked, like half the workforce. Super interesting. What percentage at they at today as a benefit of these changes?

Lauren Taylor Wolfe: So, they're at 3. And this has been a fascinating case study because we went to them, and we had to justify why would they offer maternity leave. They're up to about 70 percent of the parts and services faculty actually have women's bathrooms. So, just noodle on that for a second. I'm like, there are still 30. And they're like the highest in the industry. But we had them invest in all these various areas.

And the way we got them to do it is we said, "Listen, parts and services is 2/3 of your profitability. And when you look at it, it has 26 percent EBITDA margins versus the new and used car sales at, like, you know, 6 - 7 percent margins. It also has the highest, right-- it's capital light. It has the highest multiple. So, if you simply take your utilization in your parts and services base up, the industry is operating around 50 percent. If you could take it from 50

to 55 percent, you can drop 20 percent to the overall enterprise value of the company."

And so, what they've done is they've incorporated a lot of the initiatives that we just spoke about. They partnered with some female mechanics to offer some apprenticeships. But they've gone from 1 percent to 3 percent. But that's like going from 20 to 60. I think they have an opportunity, and the CEO David Hult, wonderful CEO, agrees. And I think he thinks they can get it to about 300 of the 2,500 to 3,000 employee base they have today over the next three to five years. And we should be able to see that in how they're parts and services is growing faster than their competitors.

Michael Brandmeyer: Yeah, and you can see how that type of change would really catalyze a lot of industry change as well getting back to some of the comments you were making about industry change.

Lauren Taylor Wolfe: A year ago, we actually saw Carvana put online an advertisement for female mechanics. So, I don't know if it had to do with this, but I'll take the win.

Michael Brandmeyer: Yeah, that's great. And what about

the more confrontational side of being an activist? Have you guys had to use that in your toolkit from time to time?

Lauren Taylor Wolfe: We try to avoid that and exhaust all measures and all avenues in order to avoid it because, again, as I said, our view is that when you engage in public battles and proxy processes, the beneficiaries are really the service providers. And it's not the best use of your time and your money.

All that said, we've done it once out of our, I call it, 20 investments. And the time to do it is when, again, you try to go over the wall, under the wall, around the wall, and you realize you've got to go through the wall in order to protect your limited partners' returns. And if that's what it requires, as a last resort we're comfortable for the confrontational engagement. But it's usually around management that doesn't want to engage, or a board thinks the work for the management team and not for shareholders. Or there's some other governance issues. But we really like the collaborative approach we take in the other 19 of our investments.

Michael Brandmeyer: Lauren, let's rewind the clock a bit

and go back to the origin story of Impactive Capital. What gave you and Christian the drive and confidence to strike out on your own after ten years at Blue Harbor?

Lauren Taylor Wolfe: Yeah. So, Christian and I are both very entrepreneurial. When he started at Blue Harbor, we shared an office. And we got to know each other. But we both always wanted to do our own things. And I think both of us were a bit of the underdogs at Blue Harbor. So, we were the youngest. The only woman and minority. And I think we both encountered having been a bit underestimated. And when you're continually underestimated, it teaches you very quickly to over deliver.

So, we got close working together at Blue Harbor. And we both lived in New York City. Blue Harbor was in Greenwich, Connecticut. And so, I drove almost every day, I drove Christian home. And there's only so much online Jeopardy or Wheel of Fortune you can play in the car. And so, you get talking about we're leaving so much money on the table, you know, by doing this.

And so, we compared notes, and it was very quick that we had similar gripes about how the activist strategy was

being pursued. Not only at Blue Harbor, but also across the industry. And we realized very quickly that we were aligned in our views of what the pitfalls were. We had similar ambitions. And I think the most important thing is that we liked working together. And we trust one another. And trust is just the most important thing in any relationship, and importantly in business relationships.

So, for us, it looked to be a lot of fun. Failure was not an option. And we haven't looked back.

Michael Brandmeyer: So, in a car in traffic on 95, what are some of the observations and experiences that you had at Blue Harbor which then informed the way that you wanted to shape Impactive?

Lauren Taylor Wolfe: Yeah. So, we took some and we left a bit. I'm hugely grateful for the opportunity to have honed skills under some great investors. So, we learned a collaborative approach. We learned the values of networking. But we tweaked a bunch. I think the first and most important, like we spoke about, is business quality. And not only Blue Harbor, but many activists what they'll do is they become so enamored with the quote/unquote

"catalysts," right, we're going to take a big illiquid stake in a company and force them to sell itself.

And time horizon is the next thing that we changed, right? We're looking at over three to five period. When you take a large illiquid stake in a low-quality business where time is not your friend, unless you get that catalyst done, you are out of luck. And it's very likely that investment will dampen the overall portfolio investment. So, we eliminated any low-quality businesses. We focus on we only take a long-term time horizon where we can use 17 different tools if we need to in different market environments of the activist toolkit. We believe in concentration. So, a portfolio of eight to ten investments at any point in time. We don't do these [UNINTEL] positions, which a lot of activists do. And these are, like, you know, toe hold positions that are just emblematic of lack of conviction such that when the market's down or when the company misses a quarter, the instinct is to sell. That really detracts from returns.

And then I think we have a really unique approach to ESG, as we spoke about. But we also have a unique approach to compensation, which speaks to our culture. But every professional at Impactive is paid on the overall profits of

the firm. So, that creates great alignment. Creates this one firm mentality.

At some other firms you see, like, a PM analyst compensation approach where that person is only paid for the position's returns that they're responsible for. I think that encourages a set up whereby the best expected return investments aren't always the best weighted in the portfolio. It's the best debated names are. There's a lot of politicking that goes into it where the overall portfolio is not set up for optimal returns.

Michael Brandmeyer: Yeah. Let's talk a little bit more about culture. Another thing that is unique about Impactive is that no one has left the company since its founding in 2019. Which is highly unusual in any industry, let alone the hedge fund industry. How do you think about culture and decision making? And what constitutes a strong team with longevity?

Lauren Taylor Wolfe: Yeah, this is the most important question and it's a great question. I think culture is the most important, right, because our assets are our people.

I think at Impactive, we have a safe space for intellectual debate. And we have an enormous amount of mutual respect and trust. And we try our best to have some fun.

So, I'm really proud of our investment team that has been intact since we started the business. It also speaks to the compensation approach that I just spoke about, right? So, everyone gets paid, all the professional get paid on the profits of the firm. And we try to keep them as close as possible. In fact, it's worked in design because we had one year where it just so happened that a handful of our companies were strategic exits, right? They were bought by either private equity or strategics. And one of our analysts had less on their plate than another analyst. And we shifted coverage.

And you won't usually see that at other firms. But because we operate almost like a private equity partnership, we know a lot about these businesses. It was quick to transfer coverage. And so, I think another thing that I learned is really, which was hard for me as one of the leaders of the firm, is really to put the team's values over my personal values.

There was an incident this past year where I felt very strongly that my approach was the right approach. And I had everyone else on the team that was like, "No. We would do it a little bit differently, Lauren." And I had to really take a step back because I really wanted-- I was pretty adamant that my approach would have gotten the return faster. And you can't ever prove the counter factual, but that didn't matter because when I looked at it, I was like, all right, if I take my approach and I discount what everyone on my team who are much smarter than me and who I value their opinion, if I had done that, I might have won an extra 300 basis points of return for that year. But I would have really, I think, demoralize the team. And that is responsible for the other, call it, 95 percent of my returns.

And so, that was something that I had to really introspect on and learn. But I think that speaks a little bit to the culture and the importance of really prioritizing the team culture over everything.

Michael Brandmeyer: It also speaks to good hiring. You built a diverse team with the majority of your investment team being diverse. How do you ensure that your talent pipeline, both at Impactive and your portfolio companies

and service providers is diverse and continues to stay diverse? And keeping that focus on your core values which have led to such great returns?

Lauren Taylor Wolfe: Yeah. So, we believe deeply as a team, and Christian and I both share a belief in cognitive diversity. Scott E page has wrote *The Difference* and *The Diversity Bonus*, which everyone should read it. It speaks to how cognitive diversity on a team will drive better solutions, right? The teams get to better outcomes.

It's our job to celebrate, but also promote and empower diversity. Half of our investment team is diverse. And I think there are different ways to nudge diversity, both in how we demand our candidate pools of anyone we're looking to hire, we want diverse representation across the candidates. But also, in our positions as, you know, we sit on boards. We buy a lot of products from vendors. Like Goldman Sachs and others, both the sales traders and accountants and lawyers. And we request that all of our teams that cover us are diverse. So, we ask for diversity as a customer so we can impact the demand function. And to all of my amazing peers out there, we encourage you to do the same because we have 3 billion. But you have

hundreds of billions and trillions. Please do the same.

And I think to the extent we can nudge that demand equation or even from our positions as customers and clients, but also in our positions on boards, I think we'll see more diversity, which ultimately drives better outcomes.

The last thing I would say is we've seen a lot of movement on diversity on boards. I really think it's a funnel issue. And it's our job as board members to really focus on hiring, retaining, and most importantly, promoting through the ranks so that we can fill the funnel to get more women and minorities in the C suite, as well as board ready.

Michael Brandmeyer: Yeah, you're truly walking the walk in leading by example. And Lauren, you're somewhat of a rarity on Wall Street. A high-profile female leader managing a hedge fund in the activist space. I imagine that's an inspiration for other women who can see themselves in leadership roles. Do you have any advice for them?

Lauren Taylor Wolfe: First is, you can't be what you can't see. So, today, 98 percent of hedge fund assets are

managed by white men. And I know some incredibly brilliant and talented white men. But also, just statistically speaking, 98 percent of the talent and skill is not white or male or white and male. Talent is definitely more evenly distributed. But opportunity is not.

So, first, a plea to all the women out there listening, and men and women of color, please join this wonderful industry of investment management because the more of us, the more of us there will be. And then the advice I would give is really just jump in. I think a lot of women suffer from this notion that it's not the right time or I don't have enough experience.

I have one quick story, which is a pretty funny story. It was about 15 or 20 years ago. I was sitting in a 100 women in hedge funds speech. And there was a woman who ran-- I think she was the CIO of J.P. Morgan Asset Management. And she told us this story of, you know, she has about 100 direct reports. Half women. Half men. And she asked questions about who's an expert in derivatives? A couple hands go up. Who's an expert in equities trading? A couple hands go up. Who's an expert in breastfeeding? Of the men, you know, half the men's hands go up. And of the

women, about 20 percent of the women's hands go up.

And I tell you this, you know, the men were like, "Oh, you know, my wife breastfed, or my sister breastfed." And I think it's interesting. I think women tend to not want to take a risk or learn on the job. They want to have something perfected. But I would just say, if you don't take the opportunity and you don't take the risk and have a willingness to learn on the job, the opportunity might not go to another woman. Right? So, I would just say jump right in and say yes and take the risk.

Michael Brandmeyer: And let's talk about how the opportunities are evolving for the next generation of women compared to what we're seeing now and, say, 15 or 20 years ago?

Lauren Taylor Wolfe: I think 15 or 20 years ago observing in, you know, in large financial institutions, or large institutions period, women looked up and saw, usually, one slot available at a very senior, you know, C suite level, available for a woman. And what that created was this natural instinct of competition. And it was unintentionally an elbows out mentality.

Now when I look at the younger generation, I see a lot more supporting one another and we can grow the pie together as opposed to this elbows out mentality. We really have a hands out mentality. A lot of support. And together we rise. And so, I'm really excited and inspired to see younger women in organizations really help one another and rise together.

Michael Brandmeyer: Hands out. I love it. That's a great visual. So, we like to finish up our podcast with a lightning round. So, let's go. What was your first investment?

Lauren Taylor Wolfe: It was 2003. It was Inventive Health, VTIV was the ticker. It was a CRO, and sort of outsourced pharmaceutical sales company run by a guy Iran Brochi [?] who went on to Providence Equity. But it was a great investment and a wonderful little company.

Michael Brandmeyer: Great. What is the biggest lesson you've learned from an investment, either one that went well or sometimes we learn our best lessons from the ones that don't go well?

Lauren Taylor Wolfe: Really make sure you understand business quality. Don't invest in female retail apparel. Brands are a different story. Brands can be great. Also, know when it's time to leave the party.

Michael Brandmeyer: Okay, which investor do you admire most?

Lauren Taylor Wolfe: Of course, as a value investor, you know, there's Warren Buffett, Charlie Munger, and Seth Klarman. They're the obvious ones. But actually, I'm really impressed by the investor operators. So, these are the folks like Mark Leonard at Constellation Software. And even Nick Halie at Transime [?].

Michael Brandmeyer: And Lauren, who's your biggest mentor?

Lauren Taylor Wolfe: So, I don't have one mentor. And maybe this was because I wasn't raised in a large institution. I have a league of advisors and everyone from my business partners or I have an entrepreneur friend, he sold his business when he was still in his thirties and he's just brilliant. He's starting a family now. His name is Jason

Redlus [?]. But he gives me incredible business advice. And then Betsy Atkins, who's been a board member forever. And she wrote the book on good governance. And she's been an amazing advisor as well.

Michael Brandmeyer: What's the best piece of investment advice you can give to our listeners that you wish someone had given to you when you were younger?

Lauren Taylor Wolfe: Oh God, I made so many mistakes when I was younger. FOMO and speculation is not an investment strategy. Definitely read *Intelligent Investor*. And actually, for the women out there, I had a bunch of female friends who were intimidated by the stock market, intimidated by the lingo. But they knew so much about their businesses. So, whether they were in beauty or dental or anything, they saw the trends. Invest behind the unique trends that you see and invest behind what you know. And start getting your feet wet.

Michael Brandmeyer: And finally, what are you most excited about in the world right now?

Lauren Taylor Wolfe: I'm excited about the amazing

young, talented women I see across both CEOs, enterprise. There's this young woman, Amanda, who runs Julie Care. She's incredible. She found this really unique approach to early contraception which will allow women to really take control and sovereignty over their bodies. But there are so many entrepreneurs like her. And there are so many new GPs and hedge funds and venture funds and private equity.

And again, going back to that 98 percent or 95 percent of all the assets are managed by white men, I think there's this huge arbitrage opportunity, right? That just means that there's mispricing, right? And so, I'm excited to take advantage of these arbitrage opportunities and these undervalued female enterprise and GPs.

Michael Brandmeyer: Lauren, it's always such a pleasure to speak with you.

Lauren Taylor Wolfe: Thanks for having me.

Michael Brandmeyer: And thank you all for listening to a special episode of Goldman Sachs Exchanges - Great Investors. This podcast was recorded on October 2nd, 2023.

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