

Impact Investing: The Importance of Resilience and Engagement in the “Never Normal”

Host: Erika Pagel

Guest: Lynelle Cameron and Brian Rice

00:00:02 **Ken Stuzin:** Hello. This is Ken Stuzin. I'm a partner at Brown Advisory. Welcome to our NOW 2020 podcast. NOW stands for Navigating Our World. We are simply trying to understand the world better, to navigate some of the most pressing questions that are shaping our lives, our culture and our investment challenges. We are committed to sharing the views of CEOs and other leaders so that we can all learn from their perspectives on how to navigate the future. We would like to hear from you as well. We invite you to leave a review or take a moment to complete the short questionnaire on the NOW website so that we can learn from your thoughts, questions and feedback. As we look to the future, whether we agree or disagree with each other, the one thing we know for sure is that none of us can figure this out on our own. At Brown Advisory, we are focused on raising the future, and we hope these NOW conversations will help us do just that.

00:01:10 **Erika Pagel:** When you look around the world right now, it's impossible not to be struck by how complex and interconnected it is. A virus emerges in Wuhan, China, and within months, much of the world is in lockdown. George Floyd is tragically killed by police in Minneapolis, and within days, streets across the United States are filled with protests. Complexity and interconnectedness have certainly been hallmarks of 2020, and they've been hallmarks of the challenges we face when we think about making an impact as investors.

I'm Erika Pagel. I'm a partner at Brown Advisory and our chief investment officer of sustainable investing. I've been working with clients to invest for impact for more than a decade. As we think about sustainable investing and making an impact through our investment dollars, it has become more and more clear that there is no single lever that you can pull to get a result. In public health, racial justice or climate change, it's systems and networks that matter. We have to consider what business can do, what investors can do, what civil society can do, what we can do as individuals to make a difference.

So for this podcast, I wanted to find two people who represent different levers for addressing the sustainability challenges that we face and who are at the forefront of thinking about how we can create lasting ESG, or environmental, social and governance, impact. Lynelle Cameron is vice president of sustainability at Autodesk and CEO of the Autodesk Foundation. When we think about large-cap public companies that embody sustainable business advantages -- that is, companies that employ sustainability to drive revenue, manage risk and enhance their franchise value -- Autodesk is a true leader.

Brian Rice is a portfolio manager at CalSTRS, the second-largest public pension fund in the U.S. Sustainability is a fundamental consideration for the fund and how they invest the \$240 billion that supports the retirement benefits of California's teachers. It is a real pleasure to welcome Lynelle and Brian to the podcast. You will hear my conversation with Lynelle first, and then we will turn to Brian.

You know, I think a good place to start is that you're CEO of Autodesk Foundation. You're also vice president of sustainability at Autodesk. How do you manage all of this responsibility and have an impact at the same time?

00:03:37 **Lynelle Cameron:** It's true. I do have two titles, CEO of the foundation and vice president of sustainability. But really, I have one team and one charter, and that is to help support our customers to use our technology to design and make a better world. So whether I'm working with some of our foundation customers who are entrepreneurs, nonprofits, innovators, or I'm working with some of the largest multinational companies in the

world, the purpose is the same: to help them use technology to make better decisions about everything that gets designed and made on the planet.

00:04:13 **Erika Pagel:** How long has Autodesk focused on sustainability?

00:04:17 **Lynelle Cameron:** So I've been at the company a little more than 10 years ago, and I was working previously at Hewlett-Packard, leading a sustainability team and trying to help the company think about how we can design printers, computers, servers better. And it was while I was doing that work that I started to hear about this company called Autodesk that makes design software for quite literally anything that gets designed and built on the planet. So I began thinking, "What if? What if we embed sustainability and the ecological intelligence into the software so that we could make it easy for any industry to make better decisions about everything that they designed and made?" So I ended up writing the company a letter and said, you're sitting on this incredible opportunity to embed sustainability into the technology to help all of us make better decisions, and ended up joining the company a couple of months later. So that's how it started.

But we began our journey really looking at what can we at Autodesk do ourselves to walk the talk, to lead by example, if you will. And I often talk about, Erica, concentric circles with the small dot in the middle, which is Autodesk and our own footprint. And surely, we have to put in place best practices, setting science-based greenhouse gas targets 10 years ago, making sure that our facilities are LEED certified. All of these practices are really important so that we can serve our customers better.

00:05:50 **Erika Pagel:** Lynelle, you're an expert in sustainability, and oftentimes at corporations, having that conversation or starting that conversation can be a little confusing. Sustainability covers a lot of different issues. How do you talk internally about sustainability -- or even with your customers, how do you address sustainability when they ask about what is Autodesk doing?

00:06:13 **Lynelle Cameron:** You know, it really depends who we're talking to. We use the word "sustainability," almost synonymous with "positive impact" in the world. And so it's inclusive of social, environmental and financial. So the triple bottom line, really the triple top line, is how we talk about sustainability. But it's about meeting customers where they're at. Each of our customers -- and I should mention, you know, we have customers in the manufacturing space who are designing things like the phone in your pocket. We have customers who are designing buildings and entire cities. We also have customers in the media and entertainment space who are designing virtual experiences and movies and film and games. And for each of these customers, sustainability means something different. And so what we have learned over time is how to meet our customers where they're at. So, for example, many of our customers are focused on materials and energy, and, frankly, materials and energy efficiency. How do we use materials and energy more productively, use less energy and materials?

Other customers are about how do we use better sources of energy, better materials, actually shifting to close-loop, circular materials or clean, renewable energy. But it's all about listening to the customer challenges and framing sustainability in the context that makes sense for them. Now in the investor community, when we're speaking with our investors, it's about environmental, social and governance, ESG. But even in that context, we are trying to help investors think about going beyond ESG, right, and into impact, so how companies align a growth strategy with positive impact that they're creating in the world.

00:07:59 **Erika Pagel:** And I'm sure there's business leaders out there that are trying to figure out how to get started in sustainability. Is there a low-hanging fruit, or does this really have to encompass most of the organization in order to move forward?

00:08:13 **Lynelle Cameron:** The important thing for companies is to really look at what is the unique contribution that you have to make to all of the many sustainability challenges. I think back to the question my dad asked me every time I came home from college. He would ask me, "What is your contribution going to be? What do you want to contribute to the world?" For many of our customers and for many companies around the world, it's about understanding what is the impact that they are having on the world that they need to adjust, so whether it's energy, whether it's materials, whether it's helping design for resilience. So it's finding the right sweet spot for each company to start and then moving from there.

So when we started, and we're really focused on leading by example ourselves, energy and setting a science-based target 10 years ago. And then also the second thing, Erika, I would say is understanding what the driver is for a particular company. And I remember when I joined Autodesk, and a month later I was presenting to our executive team, and I asked the question, "What is driving and behind your desire to start a sustainability team and effort here at Autodesk?" Because there's a lot of valid reasons. Like a company could be deciding to do this because it's the most important thing to their employees. A company could also say, "This is really important to our customers. We want to start with that first," or a company -- and this was the case with Autodesk -- could just be thinking, "This is the right thing to do. The future requires that we think about how we design and make things differently than we have in the past. That's what's driving us." And each of those is valid, but understanding why a company wants to do sustainability really shifts the focus of what gets done.

00:10:11 **Erika Pagel:** You have stakeholders. Some may come from opposing views as far as perspectives for social and environmental issues. How do you address that within your organization?

00:10:24 **Lynelle Cameron:** You know, I think that the most useful framework that is inclusive of all of those stakeholder views is the UN Sustainable Development Goals, which I'm sure you're familiar with; many of your audience is as well, and there's 17 of them. And I think about those 17 goals as a blueprint for what a sustainable world actually looks like, and it's everything from zero poverty and zero hunger through to sustainable cities. And so that often is a really good starting point for us in having conversations with our customers in different parts of the world.

But for us, what we have done is really look at our company, and of those 17, where can our software play a really pivotal role in helping our customers achieve this vision of sustainability and a more sustainable, just, equitable world? And we've landed on three areas. The first is materials and energy, which we spoke about. The second is health and resilience, which is wonderfully relevant today. And then the third area is work and prosperity, this idea of the future of work and how do we design our technology in such a way that helps people have meaningful work and equitable prosperity for more people.

00:11:54 **Erika Pagel:** You mentioned health and resilience. Do you have an example that you can share?

00:11:59 **Lynelle Cameron:** Yeah. It's really about the health implications of everything that we design and build. So when we're thinking about health and resilience, it's about how do we make material and energy choices that impact the lives of people? How do we design neighborhoods to foster healthy communities rather than divided communities? And certainly, resilience is close behind. So when we think about resilience, it's about helping to design products, places and systems that can bounce back and recover from shocks and disasters, and certainly, climate is the one that is top of mind for us and many of our customers, and the need to actually embed resilience into how we design everything as we look to the future.

00:12:48 **Erika Pagel:** In speaking with your stakeholders and using the SDGs in each one of these areas, how do you think about the foundation versus Autodesk? Is there a level of consistency across these issues?

00:13:04 **Lynelle Cameron:** So for the foundation, we focus on low carbon innovation, which is a different way of talking about energy and materials, frankly. We talk about healthy, resilient communities, and we talk about work and prosperity. And many of our foundation customers -- these are grantees or impact investees; we refer to them all as customers -- are working on more than one of those areas, right? So they're working on designing hospitals in remote locations where they're completely innovating new types of energy and material use while they're also building healthy, resilient communities. So there's lots of different examples there of these customers. And frankly, some of our foundation customers are paving the way for new market opportunities, as I mentioned. So one customer that comes to mind which actually an impact investment that we made as a company -- so this is from our company -- is in a company called Factory OS. And Factory OS -- I remember visiting their site several years ago when it was purely an idea to design homes and make homes in a factory setting. So they have completely turned the construction industry on its head by designing and building these homes in the factory setting, which has proved to be incredibly resilient in the current crisis that we face now.

- 00:14:39 **Erika Pagel:** Climate change doesn't necessarily only mean the environment. How do you address climate change?
- 00:14:46 **Lynelle Cameron:** It certainly is not only an environmental challenge. It is probably the biggest social challenge that we've ever confronted. The good news is that I think people are starting to see that. You know, for a long time, it was an existential environmental threat, and people did not connect it to health challenges, to inequity, to all of the social challenges that we're now wrestling with. And, you know, there was a time, Erika, where I didn't -- and this was advice from Al Gore, that he gave me. I didn't use the word "climate." But I think the world is different now, and I think even in our country, people realize that we have a real opportunity to both prevent further damage and climate change but also prepare for and adapt to the inevitable changes that we're increasingly facing every day.
- 00:15:46 **Erika Pagel:** What has been the biggest surprise to you in your role in sustainability?
- 00:15:49 **Lynelle Cameron:** I think the biggest surprise is driving change takes time and is hard. I never expected to still be at Autodesk 10 years later because it was really clear, "Here's what we need to do. Let's get moving, and, you know, we can do this." But the reality is we are transitioning industries away from fossil fuels, and that is not an easy task, and we have to really meet our customers where they're at. I think we hear from many that want us to push certain customers faster and further and, you know, our whole goal is to bring customers along and recognize that change of this magnitude doesn't happen overnight, and it's not necessarily as easy or straightforward as many of us might have hoped when we started the journey years ago.
- 00:16:54 **Erika Pagel:** Many public companies have released corporate sustainability reports over the past several years. They now have full departments on sustainability. What are you seeing from Autodesk perspective or other companies that you work with as far as those sustainability reports?
- 00:17:12 **Lynelle Cameron:** So we've been producing sustainability reports for 10 years. The sustainability report for us is our annual progress report on impact and the impact that we are creating in the world. We have focused very specifically on an investor and analyst audience for those reports. It's not a glossy marketing report. It's very specifically serving up the information that an investor would need. And we talked about more and more attention and interest and rigor, frankly, on the ESG front from investors, which is really important and good to see -- maybe overdue -- but good to see. But what we have done in this report, which I think is what you'll see with more and more reports looking forward, is talk about moving beyond ESG and actually aligning our growth trajectory with this idea of positive impact and the work that our customers are doing.
- 00:18:14 **Lynelle Cameron:** So in our report that is just coming out, you'll see more discussion about how our technology enables people to make better decisions. And so I'll give you one example. It's a technology called EC3, Embodied Carbon in Construction Calculator. We developed this tool in partnership with Skanska and Microsoft and others. And it's all about helping customers understand the embodied carbon of materials at a construction site before anything is built, right? So what people don't know is when you're designing a building or constructing a building, 50% of that footprint -- greenhouse gas footprint -- is in the operations of the building. Fifty percent is in the materials, just getting them to the site. So by having this kind of technology that can transform massive amounts of data into insights, we can now understand how do we change our material decisions to impact the overall footprint of a building.
- 00:19:18 **Erika Pagel:** 2020 has been, you know, an unprecedented time. It's been a very difficult time. How does Autodesk address a lot of these issues? How does Autodesk address diversity, and how are they speaking to their colleagues and their clients about diversity and COVID-19?
- 00:19:37 **Lynelle Cameron:** None of us, I think, predicted that we would have a global pandemic that would shut down the entire economy, threatening lives and livelihoods. I think none of us expected that. And yet, I think a lot of the things that were in progress and a lot of the scenario modeling that we've been doing actually has prepared us for where we're at and has enabled Autodesk to be remarkably resilient, which is important, but even more importantly, help our customers be resilient. So that's one of the biggest things that's come

out of COVID is this global attention on this idea of resilience, and it really focuses on two things, Erika. One is how resilient are our workforces and how we work? And, of course, you know, we are a company that is delivering cloud-based technology that enables people to collaborate remotely. We've been pushing and nudging customers to shift to these cloud technologies and, of course, that has only accelerated in beautiful ways over the last couple of months, and similarly, in talking about how we design and make things. You know, what gets designed and made is another really important point in time where we have had a lot of conversations with our customers about this, because there's a lot of disruptions that are coming in the years ahead that are unpredictable -- COVID-19 being a perfect example -- but then there's other disruptions that we are able to predict, and we have been predicting and talking about for a long time, like climate. And so people, I think, are now using this current situation to really think about how ready is my business, how ready is my city, how ready is my manufacturing system and my supply chain for the inevitable climate disruptions that we can and should be planning for? And so in a funny twist, I think these first six months have really woken leaders across all different industries, business, government, beyond to the idea that we need to get ourselves ready for this decade and really think about resilience in an entirely new way.

Now following that, you know, I think folks were just starting to talk about this new normal, which there's no new normal. There's only the never normal, in my mind, and certainly the horrendous murder of George Floyd and the resulting protests remind us of the incredible lack of progress on basic racial justice and equality. And this is obviously a huge priority for Autodesk, and it's part of our third pillar, this idea of work and equitable prosperity. And it's been a real point in time for us to turn inward and ask ourselves the tough questions and really look at our own diversity and belonging practices. And, you know, frankly, we have done a lot of wonderful things with our current CEO, who has been CEO for the last three years, with a real focus for him on gender and diversity, but really moving beyond that to equity and what does this mean. And you might have read he made a decision to make every single employee an owner of the company -- really, really important step. And I think today, looking at how are we investing in our employee resource groups. So we have a robust set of employee resource groups and really thinking about how do we empower them and learn from them and listen to them. So like many companies, we have a town hall listening session tomorrow, and I think the executive team is really in idea gathering mode and really thinking about, okay, what does this look like and how can we ensure that our company models the world that we live in. And especially -- this is another focus for us, has been thinking about embedding diverse thinking into the technology that we create, right? How do you think about bias as you're building this technology, because that impacts what gets designed and built.

00:23:56 **Erika Pagel:** Lynelle, if you have one piece of advice, one thing that each person could do regarding global sustainability, what would that be?

00:24:04 **Lynelle Cameron:** There's two things that I think it's important for people to walk away with. First is to talk to your investment teams and ask them the hard questions about ESG -- environmental, social, governance. Ask them about sustainability. Ask about the positive impact, not just the negative impact that companies are having, and educate yourself about sustainability practices so that you can align your investments to sustainability. That's what I tell people who want to align their portfolio more with positive impact and doing good.

But the other thing, Erika, that I would say, which is on a different track, is the importance of this decade of resilience. And resilience in terms of three contexts. So one is personal resilience and really thinking about how we are building our own resilience. Think about beyond the personal resilience workforce resilience, how are you designing workforces to be resilient, because there is a lot of change that's coming in the years, months, maybe weeks ahead. And then lastly is the importance of designing resilient products, places and systems, because our future is going to require it. And we have an opportunity right now to be really thoughtful. We have the technology. We can understand the trade-offs. We need to think about a future that looks very, very different than today.

00:25:41 **Erika Pagel:** Lynelle, thank you for sharing your thoughts. We love what you're doing at Autodesk. Brian, it's great to have you on the podcast.

00:25:50 **Brian Rice:** Thank you.

00:25:53 **Erika Pagel:** It's probably a good place to start by saying that CalSTRS, which is short for the California State Teachers Retirement System, is responsible for investing and safe keeping the retirements of nearly 1 million teachers in California. How do you personally think about your responsibility in investing for teachers' retirements?

00:25:53 **Brian Rice:** I, like at everyone at CalSTRS, am certainly mindful of my fiduciary duties to our members. However, I consider it a particular honor to be responsible for the retirement income of California public school teachers I would say for primarily two reasons. One is I am a product of California public schools, you know. My life has been, you know, positively influenced in a number of ways by teachers who educated me over the years. The second reason is I married into a family of teachers. My wife, her father, aunt, uncle, sister, cousins, all are current or retired teachers, and so the relationships that I've had in the past and the relationships I have now really heightened the responsibility of my position.

00:26:58 **Erika Pagel:** How does CalSTRS view investing for climate change as well as divestment?

00:27:04 **Brian Rice:** So I think our approach to climate change kind of takes two tracks, and I've always said one of them is a risk management approach, and the other one is taking advantage of investment opportunities around climate. We engage financial market participants on the level of attention to and integration of climate considerations. We think companies seem to be managing the risks associated with climate change. We think fund managers need to be doing that too, particularly the managers that are investing on our behalf. You know, as an organization, we push for and support regulation and legislature that promote climate considerations. For example, you know, we do advocate for renewable energy policies and carbon pricing, but we also think that capital can provide solutions to climate challenges, you know, and because of that, we do have green or clean energy investments across our portfolio, green bonds. We invest in a low carbon index in the public markets, energy efficiency focus in real estate, and clean energy generation and transmission in infrastructure. Concerning divestment, we view it as an option only when the risk-return profile makes holding an investment unappealing, and we don't think it's a way of supporting, you know, issues of concern and certainly runs contrary to passive strategies where you don't pick winners or losers. You just diversify on the market and be a long-term holder.

We also feel that divestment doesn't really lead to change, and it's better to own a company and to be engaged in a company and to be trying to influence the company to improve their products or practices.

00:28:43 **Erika Pagel:** CalSTRS has been active in engagement. How do you define engagement, and can you perhaps provide a few examples of engagement issues that you've been involved in recently?

00:28:56 **Brian Rice:** Sure. So I think engagement is a tool that an investor can utilize with a variety of entities, companies, regulators, government officials, fund managers, stakeholders. To me, engagement is really establishing a relationship between yourself and other people and trying to discuss issues of importance to get better understandings of different points of views. So, you know, looking to get more information, maybe, on company disclosure, on how they're managing risks or, you know, seeking answers to questions we might have, or providing opinions on issues that we feel need to be heard.

In terms of examples, I can provide two, I think, that are pretty good. One is around methane emissions, leak detection, and repair for oil and gas companies. The production and transportation of natural gas leads to some degree of leakage. Some leakage is inevitable, but, you know, that amount of leakage can be controlled, and we think companies should be seeking to minimize the leakage using existing technologies. It benefits the environment, and it benefits the companies, because the less product that leaks into the atmosphere, the more product they have for sale. So for a number of years, we've been targeting oil and gas companies around methane leak detection and repair, seeking to find the companies that aren't really doing everything that they can and trying to work with them to improve their processes.

Another example I would give you is an engagement -- a long-standing engagement between our members over fossil fuel investments. There are some CalSTRS members who believe we could be doing more in terms

of our climate risk exposure and our investment portfolio. And in particular, they think we should be selling our fossil fuel holdings. So we've been having an ongoing, pretty long-term dialogue with them in terms of the pros and cons of our ownership. You know, they're pretty good about giving us their opinion on what should be done, and we've been trying to engage with them around, you know, our position on fossil fuel ownership and the pros and cons of that ownership.

00:31:16 **Erika Pagel:** What do you believe are the biggest risks and opportunities in the coming months and years as it relates to climate change and creating climate resilience?

00:31:26 **Brian Rice:** I think biggest risk is that we're not acting fast enough, so we're not going to be able to keep global warming within a tolerable range. I've been focused on climate change for about 15 years, and I've seen the evolution around the response to climate change. And certainly, I think, you know, companies and investors and fund managers, governments, they're all stepping up, but there's still a long way to go, and I see particularly around how climate risk translates to investments. You know, for a number of years, many experts have been saying we need \$1 trillion annually in clean energy investment, and annually, we're not near that number. And I wonder if it's because we've accepted the risks of climate change, but we don't yet understand how the transition to a low carbon economy that needs to take place because of climate change, how that's occurring. And the challenge, I think, is education and understanding around things like physical and transitional risks.

Certainly, as I mentioned before, we believe there are investment opportunities around this low carbon transition, and we positioned ourselves to take advantage of opportunities where we can. You know, I think there's still great opportunities in clean energy generation and transmission. I think a shift toward distributed energy is gaining traction. Energy-efficient investments are still available. There are proven technologies and proven cost savings, and I think there's opportunities recognizing the companies that will support and benefit from this transition and investing in them.

00:32:52 **Erika Pagel:** Brian, if you have one piece of advice for the audience regarding global sustainability, one thing that each person can do, what would that be?

00:33:01 **Brian Rice:** Get involved, make a difference. You know, every voice helps. I've learned that over the years at CalSTRS. We're a reasonably large pension plan, but we can't affect needed change on our own. So you need to collaborate, and I strongly believe that more voices working together lead to better and faster impacts.

00:33:24 **Erika Pagel:** Brian's comment that every voice makes a difference rings so true for me. It reminds me that we all play a part in creating a more sustainable world. In our work with clients, we are completely focused on helping them achieve their specific goals, and no two clients have the same goals. In the same way, what sustainability means can vary widely client by client. Our job is to listen to each client, to understand their financial and values-based priorities so that we can help them amplify their voice through their investment portfolio. Thank you, Lynelle and Brian, for sharing your voices and your commitment to investing for impact. As we work to address the threats of the pandemic, the economic crisis, climate change and racial inequality, it is clear that we are going to have to harness significant pools of assets to make a difference.

Next week, we'll be back with another NOW conversation, one that I'm really looking forward to. My colleague, Bertie Thompson, is going to speak with three experts in mental health, which feels like a critically important topic right now. Bertie will be joined by Kristin Dimlow of Microsoft, Ray DePaulo of Johns Hopkins Medicine and Richard Frank of Harvard Medical School. I hope you will join us as well.