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Leading in positive

Robert W. Lovelace

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“You don’t have to be able to see the future to be prepared for the future”



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Robert W. Lovelace is vice chairman and president of The Capital Group Companies, Inc., chief executive officer of Capital Research and Management Company, part of Capital Group, and chairman of the Capital Group Management Committee. He is also an equity portfolio manager. Rob has 35 years of investment experience, all with Capital Group. Earlier in his career, Rob was an equity investment analyst at Capital covering global mining & metals companies and companies domiciled in Mexico and Philippines. He holds a bachelor’s degree in mineral economics (geology) from Princeton University graduating summa cum laude and Phi Beta Kappa. He also holds the Chartered Financial Analyst® designation. Rob is based in Los Angeles.

Throughout history, Capital Group has had great leaders capable of successfully predicting and managing moments of crisis. In your experience, what are the most important qualities of a leader?

Everyone expects leaders to know the future, especially those of us involved in the marketplace. People believe that somehow, we know what’s coming. That would be great. Unfortunately, it’s not very easy to do, and the good news is you don’t have to be able to see the future to be prepared for the future. And that really is the key. Leaders need to put together good strategies, so that you’re prepared for whatever outcomes come your way. Then you need to build plans around those strategies. Then the key is in execution—of how you do it.

Capital Group has been around for ninety years. We have been advocates of investing for the long term

throughout that. The key thing that we’ve learned is that it isn’t about predicting the market and trying to get in and out at the right time, which is called market timing. Instead, what matters is time in the market, which says, it’s better to have time in the market than trying to time the market.

You need to be in the market and stay invested. To help do that, we created a unique system called the Capital System, which brings together multiple managers using different and distinct styles that help lower the volatility of investing. And that matters because lower volatility helps people stay invested. So, that’s an example of our goal being to help people stay invested. That’s our strategy, and we design systems like the Capital System to help people stay invested for the long term. That compounding effect is what helps people have the money they need, when they need it.

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At a time like this, characterized by market recession in 2020 and some volatility in 2021. How can the leader retain the trust of his/her team?

Retaining trust is essential to every leader. Building trust is where it begins. Trust though is essential to get the things done that you need to do. And we all know that trust is fragile, it is hard to earn, and it's easy to lose. And the details matter—you need to think about all the details for every action you take, because people are constantly watching you.

I see trust not so much as a value, but the currency that builds on values. At Capital, we have three key values, such as integrity, respect, rigorous analysis. Trust is essential in all of those things. So, I don't put trust as a value in of itself, but it's critical in those core values that every culture wants and that every leader needs. Consistency is key—consistency in behavior, consistency in how you behave around those values in your actions.

All your processes need to be fair and transparent. Consistency in behavior also means you have to avoid subjective decision-making as much as possible, allowing people to be clear on what matters to them and what doesn't.

It also helps then to have a clear strategy, because with that strategy, you can bring people along and they can see your ability to execute and deliver and that helps build trust. So, trust is just one of those essential things that you build through your consistent actions, through planning and execution, and being consistent in everything you do.

The pandemic has not only affected business operations and triggered one of the deepest global crises; it has also had an impact upon the value of companies and their financial assets. Why is asset management important for business resilience?

So, the markets matter to business resilience because we have seen over the last 20 months the strengths and the weaknesses of all of our systems—from governments to our own families. The markets are windows into sentiment. They are windows into how people feel about things. They show confidence or lack of confidence. So, market movement matters to all of us.

But for us at Capital Group, it's not just academic. It isn't just a window into what matters. For us, we know that people have given us their money or their life savings. We never lose sight of the fact that we manage assets on behalf of individuals saving for their retirements or other important life events. We see ourselves as stewards. So that's why we, with our unique system, the Capital System, have tried to create a process that allows us to more consistently and with less volatility, give people returns so that they can feel safer in markets even when there is volatility.

So over these last 20 months, with all of the market moves, all of the concerns about the pandemic, concerns about governments, concerns about the economy, we hope we've given people confidence to be able to stay invested through that whole cycle. And we've been able to talk to people and explain to them why, even when you have these challenging periods, it was smarter to have stayed invested in the market than to try to get out and get back in, which would have led to difficult outcomes for people that did that.

So, staying invested for the long term matters. And paying attention to markets is a good way of understanding how the world is thinking, but it shouldn't affect how you plan and execute on your savings.

In relation to this, we would now like to discuss the importance entailed by digitalization. Data has become a key factor for any organization. The ability to process data in order to build value is essential for increasing effectiveness and efficiency in decision-making, and also in the area of investments. How does digital transformation impact upon leadership?

So, whether we like it or not, every company in the financial services sector, and probably every company in the world now, is a tech company. So, data and technology matter in everything we do. We know this in our daily lives, so it shouldn't be a surprise. But I'm still shocked at how many companies seem to resist understanding that they are a technology company and a data company.

When you think about it that way, it changes what you do. We recently finished a strategic planning exercise and we shifted our thinking around data and technology as a service to instead being an integrated part of what we do to enhance our competitive advantages.

What that means though is you have to design a hybrid management structure. Your technology team needs to be embedded in your business and understand how that business works and it needs to report to its own technology management lines, because only technologists can really understand how to evaluate and drive the progress. So that matrix structure, or that hybrid management structure, is challenging, but every company needs to understand that they need to have that dual structure and figure out how to bring it together.

Technology has also played a decisive role during the pandemic, as due to remote work and videoconferencing, companies have been able to continue operating relatively normally. However, it has made us appreciate again that human contact is important. In this paradigm shift, what skills should the leader develop in order to motivate their teams and foster teamwork?

We have definitely had a paradigm shift because of what's happened with the pandemic and with work from home, and it is forcing all of us to rethink how teams work and what teamwork means. We were

lucky at Capital Group because we already had a high rate of travel, and so we had a very strong technology backbone and were used to working remote in team structures. So, when we moved to work from home, it was a fairly easy process. To be fair, our call centers, which were all in offices, that was a harder transition, but we had the technology to do it. But we learned a lot from that, that we are trying to apply as we go forward.

We were very positively surprised that virtual meetings appear to be democratizing and freeing to some people. To be specific, we're hearing voices that we didn't use to hear before—those that maybe weren't quite as aggressive. So, we believe it's helped us a lot on the diversity and inclusion front because more people are finding their voice in being able to speak up at meetings. We don't want to lose that as we move back to being in the office or back to being together. We want to try and figure out how to capture the magic that we learned from this period. But people really want to be together, especially our investment teams. They really enjoy being together and they learn from each other and they know those special ideas happen from the chance conversation, not from the structured conversation.

We learned early that a central team can't solve all the problems and predict what's going to happen in the future. So, what we've been doing is trying to delegate responsibility on reimagining the workplace to local teams in different offices, and create different experiments and seeing how it works. So, we've had retreats— people getting together, even if you're on different teams, just so they get to see each other in safe, outside settings. We've had people travel together and go through multiple weeks of quarantine just to see how all of that works. We're trying lots of different ways to see how to reconnect and keep the value of what we learned during the pandemic, that democratizing, structure that we saw. But also make sure that we get the magic of being together and working together. So, teamwork, we find is definitional to the groups and the leaders in those groups. So, one of the ways to foster better teamwork in this environment is let the teams themselves figure out how they want to work together.

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Our technologists are not super excited about being back to the office, because they work remotely all the time anyway. Our investment people are dying to be together and have set up dinners and lunches and all sorts of ways. And so, you want to let those teams develop their different patterns and own it themselves.

Faced with the challenges of the future, we need leaders who are ready and with a vision of the future. Continuous training is crucial in the development of talent. What skills should be included in curricular programs to promote leadership?

So, we look at our own curriculum of developing leaders and we work with colleges and universities. And I would say the common thread that we focus on is connection. Our leadership development programs are all based on people's ability to work together, to collaborate properly, and to drive decisions as necessary.

And within all that, we know that diversity makes us stronger. So, it isn't just about one way to do things, but it is always about finding those connections and helping people develop them. Within our own training programs, we push people to think about how to drive the business, set the tone for excellence, engage people by building genuine relationships, and ultimately challenge the leader in question to seek new avenues for growth and improvement.

Let me just go through a couple of those in more detail. I think one of the keys is genuine relationships. So, if you tell people they need to connect, they'll find ways to do it, but it needs to be genuine; it needs to come from a place of actually caring. And one of the easiest ways to care is to care about their success.

So, finding that genuine person that you are and how to connect to others is really critical to our leaders. That's what I was saying at the beginning about connection.

We also think, that it is our leaders' responsibility to create and sustain that diverse, inclusive environment. This is a new aspect of leadership, but I think maybe it was there for a long time, but needs to be emphasized more now, which is, in some ways it's easier to train in a homogenous way, find people that are like you, and that agree with you. But we know that we're all better

when we bring different voices into the room. If I said to you, "A leadership team is always going to agree with everything you say", you would automatically reject that as a structure. So, you know it's good to have dissenting voices in the room, but we seem to have felt that that can only go so far. We need to push ourselves further. We need to find ways to be more inclusive and bring more voices into the room, and do that, again with genuine connections.

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In the field of the asset management industry, we increasingly find more women leaders who hold executive and regional positions, and also in areas of investment. However, there is still a long way to go. What are the keys to promoting female leadership in the asset management industry?

Capital Group has been a leader in diversity for many, many decades, and particularly with women. We are fortunate in that regard and we've learned a lot from it. Right now, we are a majority woman workforce and more than 35% of our leaders are women. But that statistic in itself tells you that we're not where we need to be, and we need to be better. We made a concerted effort several years ago to focus on gender as the key way we could learn about and improve diversity and inclusion. Our key finding was that there is no silver bullet. There is no one or two big things that you do and then it gets fixed. It's why it's been so hard for us to make improvements even as a leader for the last many decades. Instead, it's dozens of little things, that all need to be executed simultaneously. That is doable, but as you can imagine, it's much more challenging.

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One of the things we learned in those many little things is that transparency is key. We need to make sure that people understand what we are trying to do, how we are measuring ourselves, how we're driving to that next level.

We also have realized that we can't improve better than the environment we operate in. We already have more diversity than the competing companies and than the business schools we traditionally have drawn from. Mathematically, it is very hard to get better when you are drawing from a pool that is less diverse than you are. So, we have to change our pool, which is why we are going more to undergraduate, college-level students, where women are a majority. So that we can actually build from a new source and new pipelines to be able to do things. We have created communities at Capital. These are groups of people that see themselves with common interests. We have 40 communities, 19 of which are women-focused. This is allowing people to find their voice and give us better ideas on how to make things better.

We have a six-month program for women, designed to help them in leadership. We did it jointly with Harvard University, and again it's about enhancing their ability to function, whether it's at Capital Group or some other company. It really is just focused on developing those leadership skills.

So, we are seeing real progress with what we've done, and it's given us confidence with other under-represented groups to realize that when we move on dozens of different fronts sustainably, transparently, we can make progress.

You are a graduate in mineral economics (geology) from Princeton University and have had an extensive career as an equity analyst for global metallurgical and mining companies. The ecological transition is not only urgent at an environmental level but also brings important economic and social benefits. How can leaders convey this commitment to their teams and interest groups?

Well, I feel lucky to have come out of the extractives industry, the mining industry, because it gave me a real window into how much companies actually care about sustainability, even those that tend to be labelled as not caring.

And I think we all realize that we need to be doing the right things as we invest and help companies be better and more sustainable and positive forces, whether it's in the social area, whether it's in the environmental area, and all of that comes through good governance. And good governance is one of the areas that we've focused on.

Investment managers, we're judged on how we invest. But we're also judged on how we behave as a company and we're judged on how we present ourselves. Within ESG right now, I would say that many companies have gone too quickly to think about how they present themselves and signing on to lots of commitments and have not focused enough time on how they actually invest and how they behave. At Capital Group, we decided to get the plumbing right first. And so we have been dedicated over the last few years, to make sure that ESG concepts are included in every investment, in every portfolio we have, and being able to demonstrate

that. So, when I sit in on an investment conversation right now, there are always conversations not just about the negatives, not what a company does wrong, but the positives—what are they doing right? How are they trying to transform themselves?

Too much of the conversation right now in sustainable investing is about what companies are bad and should be avoided, and not enough is spent on what they should do and how they can be better. I think the world is always going to be a better place when people are trying to move in the right direction, as opposed to simply being punished for getting something wrong.

So, we have this fully integrated process where we're looking at those companies that are doing the right things, and as long-term investors, companies that do the right things tend to be more strategic, tend to be better governed, and tend to be better investments over time. So, the two rivers flow together in a very healthy way.

Last year, our 400 investment professionals conducted more than 20,000 meetings with company managements. In those meetings now, they are regularly asking questions about those companies' ESG plans, and learning from them. So, you can see why active managers, like the Capital Group, will be the drivers of this type of sustainable thinking going forward. It's a tricky process. The constructs are shifting. What people believed they wanted from ESG two years ago, is already different than what we are seeing today. But either way, we are committed to the basic concepts, because we can see as long-term investors why this matters to our clients and to the world that we live in.

Finally, we would love for you to leave a message to the new generations, to the leaders of tomorrow, at this especially difficult time. What role can leaders play in the emergence from this crisis? What positive message can we send to young people?

Well, I am a father of two daughters, both in their twenties. So, I am always very focused on how to send positive leadership messages. But I'll say that they keep me very honest, because right now, they are very doubtful about capitalism and its role in the world. The good news is that they don't believe in many

"Whether we like it or not, every company in the financial services sector, and probably every company in the world now, is a tech company. So, data and technology matter in everything we do"

isms, so capitalism isn't alone in being challenged in its helpfulness. But it's a good reminder to all of us, especially those of us in the markets, who take for granted the benefits of the capitalist systems. And instead, we need to help others learn to appreciate it. It is strengths and weaknesses—it's not a perfect system. But what are the benefits that come from it, so that we can keep driving that going forward. For sure, people need to understand the power of saving. Whenever I look around the world, those countries that have taken the time to help people understand the power of saving and being invested in the market — it really changes lives. Governments don't invest in a way that has compound interest. Investing in the markets compounds what you earn. So, it's really important to understand that having the markets work for you while you're working gives you those benefits when you need them in the future. This is a key aspect at Capital Group that we're trying to help people understand in all aspects of their lives. And if you can do that through ESG, while making companies more sustainable, while helping the environment, while making sure companies are well governed, all the better.

At Capital, we are able to attract young leaders because our mission is to improve people's lives through successful investing. People appreciate that idea that we, in getting it right, help people have better lives. We have a great commitment to our associates, as well as a great commitment to diversity, equity, and inclusion. We have a deep commitment to the environment, social issues, and governance—the ESG factors. And our humility demands that we admit that we need to be

able to learn and change. And I think this is a key aspect for all of us to learn: which is even if you have the best plan, you need to be willing to hear something that lets you know that you can do it better, and you can learn from your mistakes, and you can keep moving.

I am optimistic about the future, especially in the hands of the next generation, and it's not just because I'm so proud of my daughters. I think that together we can create clear strategies, build plans around them, and execute. I think we can have genuine connections with other people, which is the key to leadership and building trust. I think we can integrate those ESG principles into all the investment processes that we

have, and I think that trust that would come from all of that is the key to us being successful as leaders.

So, I am very optimistic about the future, and I think whether the world throws other challenges our way or not, we know it will, we know things are going to be tough, the key isn't predicting those tough things, it's making sure you're prepared enough to both survive them and thrive as we get through them.

In my Spanish, let me just say, "El futuro está en vuestras manos, y el futuro empieza ahora." [The future is in your hands, and the future starts now.]

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