

Cantor's Commitment

An Interview with Howard W. Lutnick,
Chairman and Chief Executive Officer, Cantor Fitzgerald, L.P.

EDITORS' NOTE In addition to his current post, Howard Lutnick is Chairman and Chief Executive Officer of leading inter-dealer broker, BGC Partners, Inc. He also served as Chairman, President, and CEO of eSpeed, Inc., which merged with BGC in 2008. Lutnick guided the rebuilding and growth of Cantor Fitzgerald following the firm's tragic losses in the 9/11 World Trade Center attacks. He graduated from Haverford College in 1983 with a degree in economics and joined



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Cantor Fitzgerald. He was named President and CEO in 1991 and Chairman in 1996. He is a member of the boards of Haverford College, the Zachary and Elizabeth M. Fisher Center for Alzheimer's Disease Research at Rockefeller University, Intrepid Museum Foundation, National September 11 Memorial & Museum, and the Solomon Guggenheim Museum Foundation. He has received the Department of the Navy's Distinguished Public Service Award.

COMPANY BRIEF Cantor Fitzgerald (www.cantor.com), which began in 1945 as an investment banking and brokerage business, became known for its innovation in computer-based bond brokerage and as the market's premier dealer of government securities. Recognized today for its leadership in institutional equity and fixed income sales and trading, Cantor is a preeminent capital markets investment bank serving more than 5,000 institutional clients around the world. Cantor Fitzgerald also has embraced opportunities in new marketplaces through CantorCO2e, Cantor Gaming, Cantor Index, Cantor LifeMarkets, Cantor Exchange, and other businesses and ventures. Together with its affiliates, Cantor operates trading desks in every major financial center, with offices in 50 locations around the world and a team of more than 3,700 employees.

Were you surprised by the severity and speed of the economic crisis, and do you now see us on the road to recovery?

The world started to change in visible ways in the summer of 2007. If you recognized and addressed it, you could see the transformation would be severe and very deep. A liquidity crisis in the repo market, which had become America's shadow banking system, signaled a crisis in the value of collateral. Trading institutions in effect

made deposits into this shadow banking system, and banks, acting as agents, traditionally held the collateral in the form of safe, solid, and secure U.S. Treasuries, agency securities, and AAA-rated mortgages.

Then, over time, as other types of securities surfaced, the definition of an AAA rating became more complex than it had been or should have been.

As the summer progressed, traders became concerned about the varying types and characteristics of collateral.

They began to ask, "What is it, and if it's possible that someone chooses not to finance it, then where does it go?" That led to the liquidity crisis on Wall Street and in the entire global financial marketplace. Once you have a deep liquidity crisis for finance in general, then you're no longer securitizing financial instruments. Auto loans, for example, can't be made if the loans can't be repackaged and sold. There's no market for an auto loan unless the prospective buyer of the loan can finance an auto loan package, and if no one is going to take auto loan packages as good collateral, off we go. Money market funds buy this collateral, but once they start worrying about buying it, they won't buy the securitized auto loan packages. One set of events triggered another. They then stopped buying commercial paper as well, and without commercial paper, how can anybody operate?

You could see where it was headed, which was to a very bad place, so the severity of the impact did not surprise us. I spent a lot of time with my management team talking about what could happen in the market. By the end of July 2007, Cantor Fitzgerald had an edict that we would hold no inventory, which was a radical undertaking in the marketplace at the time. For some firms, there was simply nothing they could do, and those with substantial legacy mortgage securities on their books were severely affected. Because we recognized that the worsening credit situation could go very deep given the market's interconnectedness and natural progression of events, we reacted and were able to avoid it.

There are many who suggest that we needed the stimulus, but that real recovery has to come by way of the private sector through entrepreneurship and innovation. Do you agree, and is the right discussion on recovery taking place?

I agree the private sector is the driver of economic growth and prosperity. The government

played a key role in getting confidence back in the mutual fund industry and money market industry, and in making sure there were no runs on Wall Street firms while the credit markets worked to open up again. The markets relied on government intervention until banks began to build up their capital. But while our gargantuan government can be helpful, it cannot be nimble or efficient. So for the economy to operate as it should, it needs to be entirely on the shoulders of market participants, those who produce supply and those who stimulate demand. While the government was very helpful in stopping a progression to the depths of the abyss, created demand and created supply by the government won't lead to long-term economic health. Government's role was very much like that of a parent. The banks are the children of the Fed and the banks also are the parents of the economy. Big government can teach the banks a lesson, but it has to let them go back to being banks to avoid greater dysfunction of the system.

Are you happy with the results Cantor Fitzgerald has been able to achieve, and is the business where it should be today?

We were extraordinarily well-positioned to build our business, capitalizing on the opportunity presented by this crisis. We were not burdened with legacy assets. Therefore, we could immediately go to our clients and ask what they would like to buy and how we could help meet their objectives. We didn't have anything mispriced that we were trying to sell and, therefore, were able to focus exclusively on servicing our clients' needs. We were able to dramatically grow the company by maintaining an unwavering focus on client service throughout this period.

We also hired spectacular salesmen from Bear Stearns, Merrill Lynch, Bank of America, Lehman and others. These are seasoned professionals with extremely solid relationships in the market. We've added so much talent that our business was up more than 75 percent in the past year. Because we weren't saddled with legacy assets, we made money in each quarter, with very strong and consistent profits, while other firms lost substantial amounts.

Our business is not a betting business – we're not going to move back and forth between big profits and losses. We are a service for our clients' business. Our distribution model is aimed at helping a client find what it wants to buy or sell, find the other client who wants to do the transaction and match them up, and use our money if needed to help them complete the transaction.

We were the sixth largest investment bank primary dealer in America. There were 12 banks and six investment banks doing business with the U.S. government. Following the closings and mergers resulting from the financial crisis, Cantor Fitzgerald became the number-one investment bank primary dealer in America. So we're in a superb spot with exceptional market opportunity. When a financial institution becomes extremely big, the effort to move the needle is gigantic. We, on the other hand, can move the needle with first-class clients who are able to do great transactions but who are not the biggest in the world. We are in the same industry as, for example, Morgan Stanley, but the difference is that we focus on serving every hedge fund, not just the top 20. Our business model is to know them all, cover them all, and to have great relationships with them all. We have more salesmen than the big banks, enabling us to cover more accounts. While the giants cover a few gigantic accounts, we cover an enormous number of comparatively smaller, but spectacular, accounts. It's a great spot to be in, because our clients are happy for our coverage and service, and value the fact that a quality firm like ours cares about them.

Cantor is also very focused around giving back. How critical is that to the culture of the firm, and from a leadership point of view, is that something very important for you to drive throughout the organization?

Bernie Cantor instilled a culture of giving in our firm. He was a spectacular philanthropist, and we historically donated 10 percent of our earnings to charities. So that is our foundation.

The magnitude of the events of September 11th and the loss of 658 of our partners and employees didn't change our colors – it just made them brighter. So if we were philanthropic before, we became extraordinarily so after.

We knew we had to help the families of those who we lost – these were our friends and coworkers. Caring for those who perished is why the company survived. Late in the evening of September 11th, we discussed closing down the firm, because clearly no one wanted to work. But we also discussed that if we did decide to go to work, we were going to have to work harder than we had ever worked before and be home less than we had ever been home before. There was only one reason I was willing to do that, which was to help our families. I gave everybody a choice, and there was an overwhelming desire and commitment to helping the families.

We recognized that the only way to help the families was to build a real firm, because we committed to giving them at least a total of \$130 million: 25 percent of our profits for five years, no less than \$100,000 per family, and 10 years of health care for those that need it. So we had to be successful. That was the foundation on which everybody worked, initially for 20 hours a day. We lined up cots along the walls and people would go to sleep for four hours at a time. If you wanted to see your family, you visited with them in the parking lot for an hour. Everyone was working at an extremely high level because we had to if we were going to help these families.

We exceeded our aim, and have provided over \$180 million to our families. In addition, every year on September 11th, the company foregoes all of its revenue by donating the full amount to charity. Helping children with medical and

special needs, injured veterans, medical organizations, and other worthy causes is our way of commemorating those we lost by turning a tragic day into something positive and uplifting. The reason we're here as a company is that we made that commitment to our families and we survived because of the commitment by and to our employees. Our clients, who also loved Cantor's employees who were lost that day, continued to do business with us when we weren't perfect and as we struggled to rebuild. We reached the level of excellence where we are now because our clients stuck with us during the time when that wasn't at all the case. That's why September 11th is our Charity Day. It all fits together with who we are, with why we still pay for health care, with why my sister runs our relief fund, with why we have 1,000 people at our annual memorial on September 11th, and with why we still have a mothers' lunch every year where mothers who lost their sons or daughters get together. Nothing makes me feel better.

Did you know in those early days that it would work out, or were you too deep in the trenches to even think about it?

I wasn't sure until the 17th of September, when we announced we were going to make the commitment of providing 25 percent of our profits to the families, because only at that point was it clear that we were going to remain in business. I had made a deal with the bank that Cantor could stay open for business, even though so many of our people and our systems were gone. When the bond markets opened on the 13th, the bank lent us \$75 billion against securities. We then paid for the securities but our computer systems, which had been destroyed, couldn't tell us where all securities in the transaction pipeline should get delivered. While we had back-up systems, there were multiple issues given that most of the people who operated them had been killed. The bank agreed, at significant urging by me and at tremendous risk to themselves, that they would allow us to open for business provided that at the end of every night, our loan would be lower than the previous day.

We faced tremendous operating problems, but on the 17th, we processed an enormous amount of business because our clients had come to our rescue. We had only wanted to try to do a little volume of business to see how well the systems we were cobbling back together worked, but our clients came pouring back to us. I thought we were going to be destroyed by kindness. We were able to process enough old transactions out the door before the new ones came in, so the bank didn't close us. It was only then that we told the families what we were going to give them. While the company had actually made that decision on the 13th, it would have been inappropriate to announce until I was certain the firm was going to survive. Cantor Fitzgerald was always considerate of all of the families who lost their loved ones. The loss of my younger brother made me one of them, and is maybe one of the reasons we had such a great connection with the families.

When you have people who looked to you to see that things would be okay, but you were grieving like everyone else, how were you able to be all that you needed to be at that moment?

September 11th was an extremely hard point in time, and from that moment, one could

only reap the seeds that one had sown. We had a rule at the firm that we only wanted to work with people we liked, so hiring your friends was encouraged. We lost 20 sets of brothers and a pair of sisters. My brother and I worked together but I lived and he died. I can't say Cantor was just one big happy family, but it was certainly a series of business units that were so tightly woven together that the survivors were not going to let it fail. I was able to articulate how they all felt and create a path that they wanted to go down. I couldn't go out and lead; all I could do was take what was special about the firm before, the seeds we had sown, and say we're going to help these families. Some days, I could not go to funerals because I had important business meetings and I needed to be focused on keeping the firm moving forward and the families forgave me because they knew that if I went, I'd be a mess. But working for the common cause at the time made us all feel better and gave us strength of purpose.

Years later, can you appreciate the type of impact you've had on the families, or is it always about wanting to do more?

My relationship with the 658 families was the most important thing in my life after September 11th, other than my wife and kids. Eight years later, it's how I judge my humanity. My spectacular relationship with those families is what makes me feel good about everything.

I just hired the second family member of a young woman who died on 9/11. You would think someone like that would rather work anywhere else. But there is so much love and respect within the company that ultimately, they go back to viewing the company the way they viewed it before 9/11. So we employ lots of family members. It's a tremendous honor for me.

You've had the opportunity through a tragedy to see the best in people. It must be fulfilling to see what your people have been able to do.

The most impressive people on earth are women with children who have been widowed. They are the strongest, most extraordinary beings on earth. I called one of the wives of our guys and asked if she'd like to speak at our memorial on October 1st, 2001. She loved her husband, but said she was taking her kids to Disney World, that she could not cry anymore and wanted a happy life for her children.

Another woman called me a week after September 11th, and said if her husband had to die she was grateful her husband died working with me, because he'd been happy and loved his job. She called me to make me feel better a week after her wonderful husband was taken from her while working with me. That's unbelievable grace.

In addition, the commitment of my employees is the most beautiful thing to see, not only that of our survivors, but the contribution made by the new employees who came to help. This was not a place to simply come to work; they came because they wanted to be helpful. Cantor Fitzgerald's standing is a testament to how people can show love and support and help us make a difference in our families' lives and in our employees' lives. The firm makes me so happy because I'm so proud to be associated with it. For our clients and the people who work here, it's almost impossible to comprehend what they've achieved. It's completely extraordinary. ●