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The IESE Endowment

The IESE Endowment is an investment fund that seeks to support research activities and scholarship programs as well as the overall general institutional development of IESE.

The Endowment is managed so that future generations will have at least the same capacity for action as the present generation (intergenerational equity).

To this end, part of the profit (interest, dividends, capital gains, etc.) is reinvested back into the fund itself, so that purchasing power is not lost due to the effects of inflation. Therefore the impact of a donation is permanent, allowing IESE to undertake more ambitious and long-term projects.

The IESE’s mission is to develop leaders who can make a positive, deep and lasting impact on people, companies and society through their professionalism, integrity and spirit of service.

To carry out its mission, IESE offers programs and other educational activities, which are self-supporting from an economic standpoint, because they are financed through academic tuition fees. To ensure that resources are not an obstacle to completing a program at IESE, the school also offers scholarships and financial aid to students with outstanding academic credential and limited financial means.

Research is an essential part of IESE’s academic activities; it is indispensable for making a deep, global impact in the academic world, as well as in society as a whole. Research is financed by IESE and, as in other academic institutions, only partially, through public funds available to research groups. In many cases, public funding is not sufficient.

IESE is the business school of the University of Navarra. It is a not-for-profit institution that, since its establishment in 1958, has relied on the generous help of people—in many cases Alumni-, Sponsoring Companies and Institutions. This has allowed the school to strengthen its teaching and research activities and offer more support to students and doctoral candidates.

In order to provide continuity over time and avoid the negative effects of volatility in the economy on the stability of scholarship programs and research projects, IESE receives donations that are secured and invested in financial products, thus maintaining the purchasing power of the initial capital, and funding initiatives with the returns on the investments, always in accordance with the wishes of the donors.

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The Endowment is managed so that future generations will have at least the same capacity for action as the present generation (intergenerational equity).

At the close of the fiscal year that ended on 31 August 2019 the value of the Endowment was €36.5M. Of the major funds that comprise it, the largest is the Endowed Chair Fund, made up of the endowments for the distinct IESE Chairs and other permanent Research Center Funds.

**Principal funds of the Endowment** (on 31 August 2019)

- **€22.4M** (61%) Endowed Chair fund
- **€5.6M** (15%) Research and scholarships fund
- **€8.5M** (24%) Quasi-Endowment
Annual distribution

The Endowment has ‘distributed’ nearly €9M since its inception, which has been dedicated to research projects and Scholarship programs. In 2018/19 Endowment distributed €1.5M, doubling the quantity distributed seven years ago.
The Endowment was established in 2011/12, and since then has grown by 52%. This increase over seven years (6.2% annual) has been possible thanks to Alumni and sponsoring company donations. In 2018/19 the variation was -3.4% and new donations to a value of €2.6M were received, of which 43% are “unrestricted”, that is, with no special conditions as to the destination of the financial returns.
Activities supported by the Endowment

In 2018/19 the Endowment distributed an amount of €1.5M, representing an increase of 13% on the amount distributed the previous year. Since its inception in 2011/12 the Endowment has contributed almost €9M to finance scholarships and research projects.

The Endowment makes investments while taking a very long-term perspective, determining the return and risk parameters so as to meet the desired goals. It aims to balance the needs of current and future beneficiaries in order to obtain a steady and sustainable flow of funds to finance grants and long-term projects, while increasing its capital in line with inflation.

The goal is to distribute annually (for financing activities) 4.4% of the average value of the Endowment during the three previous financial years.

In some cases, the donor specifies where investment returns should be placed. Thus, the Endowment comprises diverse funds, a part of which have specific aim (restricted), while the rest goes towards activities and projects considered appropriate at the time (unrestricted), always within the established objectives.

The Endowment continues to grow through new donations. Many are received by the IESE International Foundation, whose mission it is to support the development of teaching and research activities, and which collaborates with IESE. A part of the Endowment is entered in IESE’s accounts, while the rest goes through the Foundation’s. This report presents the Endowment as a whole.

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The management of the fund is based on financial portfolio investment theory. Through analysis that takes the objective of the investment into account, a very long-term investment horizon and the capacity of the fund to withstand losses for a particular period, a portfolio that optimizes returns is designed, always within an acceptable risk exposure.

The Investment Policy establishes the benchmarks against which the results obtained for each asset class and for the Endowment as a whole are measured in the medium to long term. The Benchmark of the portfolio for the Endowment as a whole is made up of the benchmarks for each asset class with the specific weight established for that class by the strategic asset allocation.

Investments are made with the external managers through collective financial vehicles (funds), thereby keeping the internal management team to a minimum. Passive products such as ETF (Exchange Traded Funds) are used as default, unless the Investment Advisory Committee believes that there is an active management product, with a trusted management team, that can exceed the benchmark.

Return, asset allocation and diversification are determined from a strategic perspective. Investments are diversified and managed with high standards of accountability and in compliance with all applicable laws and regulations. Management of the fund is based on annual income generation, the increase in the value of assets and donations obtained. Thus, income and donation stability are key to the management of illiquidity risk to comply with the annual distribution policy.

IESE’s Executive Committee and the Board of the IESE International Foundation are ultimately responsible for the management of the Endowment. These bodies, in order to receive guidance on issues related to financial investments, created the Investment Advisory Committee. This group carries out its functions following the general directives approved in the IESE Endowment Investment Policy Statement.

The IESE Endowment Investment Policy Statement establishes three investment objectives:

- Maintain the purchasing power of the fund
- Reliably finance activities each year with a percentage of the fund
- Maximize the total long term returns of the Endowment

Socially Responsible Investment

In its investment activity, the Endowment aims to act in a manner consistent with the mission and values that inspire both the IESE International Foundation and the IESE – University of Navarra. The IESE Endowment has an eminently social nature in that all returns on the investments are destined for research projects and study grants, and thus in favor of academic development. Additionally, the IESE Endowment ensures that all the resources it uses are traced and accounted for in a manner consistent with the principles of Responsible Investment (RI).

The IESE is aware of the environmental, social and governance (ESG) risks arising from issues as varied as human rights, some discriminatory practices or bribery and corruption, environmental pollution, etc. It also understands the ethical implications of some decisions, related not only to the investment undertaking, but also to the activity of the companies in which it invests and the impact that these have on society. In cases of directly investing in stocks or debt, the Endowment avoids doing so in companies whose mission or business practices are not aligned with the values of IESE, such as countries or companies associated with the sale of certain types of arms whose use is especially controversial, or that commit significant or systematic abuses of human rights, such as torture, deprivation of liberty, forced labor, child labor, etc., or abortion and euthanasia.

The need to generate sufficient returns to finance Endowment expenses and, at the same time maintain purchasing value, justifies a bias in Strategic Asset Allocation in the area of equities or classes with similar returns. The desire to provide the portfolio with a level of protection from sharp falls explains the presence of fixed income and also some of the alternative strategies, thanks to the low correlation that exists between these asset classes. Finally, the need for annual liquidity justifies maintaining a percentage in cash & equivalents.
Investment committee

Jaime Alonso Stuyck
Committee Chairman
Director of the IESE International Foundation

León Bartolomé - MBA’84
Managing Director of Alcarama

Bosco Bofill
Secretary of the IESE International Foundation

Eusebio Díaz-Morera - MBA’69
President of EDM

Pablo González - MBA’90
Managing Director of Abaco Capital

Christopher Ivey - MBA’01
Head of European Private Client Practice, Cambridge Associates

Markus Stadlmann
Chief Investment Officer of Lloyds Bank plc (Joined the Committee on Feb’19)

Juan José Toribio
Emeritus Professor of Economics, IESE
2018/19 Investment Performance

Since its inception in 2011/12 the net return obtained by the IESE Endowment has been 4.7%.

Influencing this result is the negative return obtained in the period from 1 September 2018 to 31 August 2019, which was -6.3%. This result was affected by high volatility and the particular closing time, and also by other factors:

- The preference for the value factor (that has behaved worse than other factors: in 2018 the difference with the market factor was more than 500 bp).
- The desire to keep the average duration of the Fixed Income portfolio very low, which also accounts for same bp.

At the end of this period, the absolute and relative distribution of the Endowment between the four principal classes is the following:

### Asset Allocation Sit. on 31 August 2019

<table>
<thead>
<tr>
<th>Asset Allocation</th>
<th>Sit. on 31 August 2019</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>18,972</td>
<td>52%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>6,537</td>
<td>18%</td>
</tr>
<tr>
<td>Alternative Strategies</td>
<td>8,296</td>
<td>23%</td>
</tr>
<tr>
<td>Cash &amp; Equivalents</td>
<td>2,641</td>
<td>7%</td>
</tr>
</tbody>
</table>

(Thousands of Euros)

### The Alternative Strategies in detail

<table>
<thead>
<tr>
<th>Alternative Strategy</th>
<th>Sit. on 31 August 2019</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute return</td>
<td>3,601</td>
<td>10%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>1,652</td>
<td>5%</td>
</tr>
<tr>
<td>Commodities</td>
<td>2,864</td>
<td>8%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>178</td>
<td>0%</td>
</tr>
</tbody>
</table>

(Thousands of Euros)

### Investment distribution by currency

The spending of the Endowment is done in Euros, so a major part of the investments (70%) is kept in this currency.

### Geographical distribution of investments

From a geographic standpoint, the currency distribution and a greater knowledge of the region influences the fact that 39% is focused in Europe, to which must be added the investment in Spain (15%).

### Management costs

Currently, a little over half of the Endowment is invested in active management products, with the rest in passive management products (ETF’s). The average management cost of the portfolio, already discounted in the results presented in this report, and calculated by adding up the management fees for each fund, represents 0.7% of the value of the Endowment.

As far as internal management costs are concerned, these can be considered as virtually nil, since external advisors are not used.
Results by Asset Class

Below are details on investments made in each asset class, including average annual returns obtained since the inception of the Endowment in 2011/12 and the comparison with the Benchmark over the same period.

Equities

This class provides revaluations in stock price and, in some cases, dividends. Traditionally, this type of asset has achieved greater returns in the long term than fixed income, at the cost of assuming higher levels of volatility.

In 2018/19 equity positions have remained neutral on the SAA, ending up slightly below: 52% of the portfolio, compared to 53% of the target. The conviction that we are experiencing the final part of an economic cycle has led the committee to ‘rebalance’ the portfolio towards the Strategic Asset Allocation more frequently throughout the year.

A portion of the investment in equities is made through passive investment. Another part, particularly on a European level, was made through ten active management funds, with a relative weight ranging from 1% to 5% of the total value of the Endowment.

The average return obtained for all equity positions since the inception of the Endowment in 2011/12 has been 9.5%, in line with the class benchmark, which is calculated taking equal parts (50%) of the MSCI All Country World and the MSCI Europe Index, which registered an average annual increase of 9.5% over the same period.

Fixed Income

Bonds and similar instruments generate interest up until the maturity of the securities. They can be kept until then or sold on the secondary market before maturity, if the price or other factors make that advisable. Investments in bonds theoretically have a low correlation with equities, and therefore serve to protect against sharp falls in the market, or periods of deflation.

Extremely low interest rates, influenced by massive debt purchases by the central banks, reduce the attractiveness of this asset class. For this reason, the target was reduced three years ago from 20% to the current 15%, pending the normalization of monetary policies.

A part of the fixed income investment are made either through shares in Fixed Income and Mix Funds, or through ETFs (predominantly in emerging countries); while on occasions direct investments are made in corporate bonds. The average yield of the fixed income positions since the inception of the Endowment in 2011/12 has been 2.7%, in line with but slightly below its benchmark, taking equal parts (50%) of the Global and European versions of the Barclays Aggregate Bond Index, which has recorded 3.5% annual over these years.

Average annual returns by asset class vs class Benchmark since inception (2011 for Equities and Fixed Income, 2015 for the rest)

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>IESE</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>9.5%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>2.7%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Absolute return</td>
<td>3.9%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>10%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Commodities</td>
<td>0.9%</td>
<td>-2.6%</td>
</tr>
</tbody>
</table>
The use of such investment strategies seeks to find opportunities with high returns adjusted to the risk assumed, while trying to look for low correlation with equities. These can help improve the risk-return characteristics of a portfolio. Within these strategies, in addition to a small share in a Search Fund, it has been decided to use the following:

**Absolute Return**

Designed to look for low correlation with equity markets, Absolute Return Hedge Funds aim to generate attractive returns in the long term, taking advantage of market inefficiencies.

The Committee has maintained a position of 10% in two Global Macro-Market Neutral funds, that aim to behave in a manner independent of the vagaries of the market, and thus protect the portfolio at times of sharp falls. Both Hedge Funds demonstrated their effectiveness in the sharp falls of December 2018, when results in all classes were negative, with many funds recording losses of -10%, while these two funds returned positive results.

The average annual result obtained since the inception of the asset class in 2015 was 5.9%, compared to a result of 2% recorded by the HRFX Absolute Return Index over the same period.

**Real Estate**

Real estate investments can be an attractive alternative to traditional strategies and can add value not only through the revaluation of assets, but also through the effect of the continuous flow of rental income. They also tend to have very low or negative correlation with other investment classes.

In 2014, it was considered that the sector offered opportunities in Spain with income securities at record lows. A portfolio was established through REITs, which in recent years has been partially liquidated.

The average annual return obtained since 2015 has been 10% higher than that obtained by the benchmark in this class, which is calculated by adding 400 basic points to the 12-month Euribor rate.

**Commodities**

Commodities are non-made physical goods such as those produced in the mining sector (precious or industrial metals, etc.), whose prices basically depend on supply and demand, and are affected by geo-political factors and the weather.

Although subject to a certain price volatility, which can at times be high, investment in commodities may provide low or even negative correlation with the stock and debt markets, protecting against unexpected inflation hikes, which is considered one of the clearest risks faced by the Endowment.

For these reasons, a position in commodities was established several years ago that has grown to close to three million euros (8% of the Endowment), through an ETF that invests in Energy (42%), Agriculture (26%), Industrial metals (16%) and Precious metals (16%), and an investment fund that invests in mining companies.

The average annual return obtained since the class constitution in 2015 has been +0.9%, above the one obtained by the DB Liquid Commodity Balanced Index that during this period has experienced annual returns of -2.3%.
Impact of the Endowment

The returns on the IESE Endowment, in accordance with the distribution regulations approved in the Investment Policy, are wholly put towards financing study grants and research programs.

The scholarships enable Doctoral Program (Ph.D.) and MBA students to finance their post-graduate studies. They are awarded to students with excellent academic records and preferably with limited economic resources, or from countries eligible for development aid. There are also grant programs that foment diversity.

In many cases, Doctoral Program graduates begin their academic career as professors in business management schools around the world, so these grants have a strong multiplier effect, typical of trainer training programs. Scholarships for the MBA program also have a significant social impact thanks to the actions of managers with a high degree of professional training, aware of the social problems faced by the company and modern society.

Another part of the returns goes towards financing research projects directed by the IESE faculty, who, as part of their academic task, conduct rigorous research projects that are at the same time relevant to business reality.

A part of these projects is carried out under the wings of the Research Chair, working groups directed by an IESE professor, whose objective is to further research in a particular area of interest, publishing the results of this activity for the academic and business communities. The 28 Chairs currently endowed represent the materialization of the generous collaboration of Alumni, companies and foundations that are highly committed to the development of knowledge in the world of business management.

Presented in the next pages are some testimonies from students awarded grants in the 2018/19 academic year, as well as a selection of the many research projects that have been undertaken by the IESE Research Chairs, Investigation Centers and Academic Departments during the year.
Endowed Chairs

The current IESE Endowed Chairs are:

- Abertis Chair of Regulation, Competition and Public Policy
- Alcatel-Lucent Chair of Technology Management
- Anselmo Rubiralta Chair of Strategy and Globalization
- Antonio Valero Chair of Governance and Business Management
- Banco Sabadell Chair of Emerging Markets
- Bertrán Foundation Chair of Entrepreneurship
- CaixaBank Chair of Corporate Social Responsibility and Corporate Governance
- Carl Schroeder Chair of Strategic Management
- Carmina Roca and Rafael Pich-Aguilera Chair of Women and Leadership
- CELSA Chair of Competitiveness in Manufacturing
- IESE Foundation Chair of Corporate Governance
- Crèdit Andorrà Chair of Markets, Organizations and Humanism
- Grupo Santander Chair of Financial Institutions and Corporate Governance
- Chair of Family-Owned Business
- Eurest Chair of Service Excellence
- Fuel Freedom Chair for Energy and Social Development
- Indra Chair of Digital Strategy
- Jaime Grego Chair of Healthcare Management
- Joaquín Molins Figueras Chair of Strategic Alliances
- José Felipe Bertrán Chair of Governance and Leadership in Public Administration
- Nissan Chair of Corporate Strategy and International Competitiveness
- Novartis Chair on Operational Excellence in the Health Sector
- PricewaterhouseCoopers Chair of Corporate Finance
- Puig Chair of Global Leadership Development
- Schneider Electric Chair of Sustainability and Strategy
- SEAT Chair of Innovation
- SEAT Chair of Labor Relations
- Franz Heukamp.

IESE Dean.

“The Endowment is a tool for academic excellence: it allows us to strengthen research and to attract the best talent.”
Terwase Viashima

Jos (Nigeria) Master of Research in Management

Terwase Viashima was born and raised in Jos, a city of 900,000 people in central Nigeria. "My dad actually got his PhD in urban and regional planning and was an academic for some time," says Terwase, who also chose the path of being a scholar.

Terwase left home to study a master's degree in the UK, but then returned to Nigeria to do Mandatory National Service, which requires young people to work in an area of need specified by the government.

"I was a graduate assistant at a virtual university and then worked at Shell as an IT security engineer for about four and a half years," he explains.

He then decided to apply to IESE’s Master of Research in Management program, after confirming the school’s teaching caliber in the Financial Times MBA rankings.

"I’m looking at entrepreneurship funding and how professional investors evaluate companies according to objective and subjective criteria," says Terwase, whose main goal is to “get his chops” in doing high-quality research that is widely disseminated. “For me, it’s not enough to publish in journals. My ultimate goal is to make sure that the knowledge generated from research has real-world impact.”

The economic assistance provided by IESE International Foundation has been instrumental in carrying out his doctoral program. "There is no easy way to do the Ph.D. It’s demanding and requires complete focus to get good work done. Not having to worry about funding lightens the burden immensely."

Master of Research in Management candidates with financial support have the security to explore more “revolutionary and riskier” areas, which could produce important results, he says.

By providing financial assistance, IESE International Foundation can ensure diversity that enriches the learning experience, he says. "If you have only paying candidates, you would be constrained to a certain profile, but with sponsorship you have a more diverse group and I think that helps everyone’s learning process."

"By providing financial assistance, IESE International Foundation can ensure diversity that enriches the learning experience".
Van Nguyen
Hanoi (Vietnam) Ph.D.

Van Nguyen was surprised when she received an invitation from IESE to apply to the school’s PhD program, as a result of her GRE (Graduate Record Examination) scores. But after researching the school online and taking the decision to come to Barcelona, she has never looked back.

Van explains that the PhD program offers an exceptional environment for students, who have their own building and offices. “It’s a great school and while the research community is not big, I have met very good professors”, she says.

In addition to high-level faculty members, the PhD program offers an outstanding physical environment for doctoral students, who have their own building and offices, she explains. “It’s very comfortable for us to do our research here,” says Van, who is carrying out her PhD with a focus on finance and banking.

“My main interest is to study the impact of the political uncertainty on financial markets. For example, whether there is a potential change in the structure of the government or a potential change in policies, I look at how that would affect the behaviors of market participants,” she says.

Her long-term goal is to become a professor of finance at a university. At the moment, however, she is focused on her last year in the PhD program 2020, when she will participate in an exchange program in the United States, carrying out research at either MIT or Berkeley before graduating.

Financial support plays a big role for Ph.D. students, since the program involves a four to five-year time commitment -time when they are not earning a salary, she says. Thanks to the assistance, “we can pay attention and focus on our research,” she said, adding that all administrative processes of receiving assistance have always been handled very smoothly at IESE.

“I definitely appreciate what IESE International Foundation does in terms of financial, emotional and administrative support,” she says.
Ali Ahmad Alamein's family moved to Australia in 2002 as refugees from Iraq. One of five brothers, he attended Melbourne University, where he earned degrees in engineering and science. After getting married and welcoming a son into the world, he decided it was time to pursue an MBA degree.

Before starting the MBA, Ali worked in both the private and public sectors in the water industry, focusing on water savings for the environment and agriculture.

He resolved to go to either the United States or Europe, but his participation in an IESE Assessment Day crystallized his decision to come to Barcelona.

The experience “was definitely a differentiator between IESE and other schools in terms of giving you a personal experience,” he reflects. “I was able to see how the university conducted itself, the case approach and how classes would be run. I was also able to interact with other potential candidates of very high caliber. It was incredible to be surrounded by these like-minded people who are now my group of friends.”

Now in his second year of the MBA program, Ali has accepted a job at BCG in Melbourne, where he also carried out his summer internship.

Working as an engineer, Ali’s salary had been modest prior to embarking on the IESE MBA. He also had a family, including a young son, to think about. The scholarship funds he received gave him the financial stability he needed to move toward his goal.

“I really was struggling to be able to afford to come to the school and had sold all my assets at the time,” he said. Not having any assistance would have meant delaying his start by another year so that he could accumulate enough savings.

By contributing to IESE International Foundation scholarships, donors are not only opening the doors of opportunity for candidates who need financial support, he says. They are also helping increase diversity, especially by contributing to scholarships for specific groups such as women, says Ali, who is expecting a daughter in early 2020.

“I believe that being able to offer scholarships to people from different backgrounds and give them the chance to compete is very important,” he said.
Contributors to IESE International Foundation scholarship fund are helping to create new knowledge and therefore make an impact on society.

Shagun Tripathi
Varanasi (India) Master of Research in Management

Born in India, Shagun Tripathi grew up “all over the country” due to her father’s job with an Indian multinational that took her tight-knit family to different cities. She embarked on IESE’s Master of Research in Management program in 2018.

After completing her undergraduate degree in India, Shagun worked for two IT firms there, often in cross-cultural teams for U.S.-based clients.

Later she finished her MBA with dual specialization in IT and People Management. This experience put her at the intersection of business and technology, triggering her interest in pursuing an academic career in the area.

She embarked on IESE’s Master of Research in Management program in 2018, with the goal of carrying out research on how fairness plays out when people interact with technologies and vice versa. Currently, she is interested in digital markets and the sharing economy.

“My ideas have evolved since I’ve come here. When you see things from an industry perspective it’s different from when you start seeing things from an academic perspective,” she notes.

Shagun initially chose IESE in part due to its reputation as a top-notch school and its multiple accreditations. Since arriving, she has found IESE’s learning environment to be open and friendly, with faculty members who are “understanding and capable of stimulating a lot of intellectual curiosity.”

The economic assistance she received from IESE International Foundation was vital in her decision to launch her academic career at IESE. Thanks to the funding she has received, she has been able to focus completely on her research.

Contributors to IESE International Foundation scholarship fund are helping to create new knowledge and therefore make an impact on society through the school’s humanistic management approach.

“I’m not just talking about myself, but my colleagues, as well. As social scientists, some investigate social justice, some are thinking about what the best investments are to make, or the best businesses that can be created and how to help them thrive. Fundamentally, we all see the good that knowledge can create in society, as well as the good that businesses can create in society.”

Most importantly, donors are helping create innovative knowledge that is on the leading edge, which can benefit anyone at any given point of time.
“Scholarships for women MBA candidates, like the one I receive, are absolutely necessary to increase trust and encourage women leaders.”
Although progress has been made on financial regulation and oversight in the last decade, phenomena such as shadow banking and the new digital competitors remain outside the regulatory perimeter. Furthermore, the new rules and the elevated costs of compliance make the entry of new actors difficult and tend to increase market concentration, which can aggravate the problem of banks being “too big to fail.”

These are some of the conclusions from the first report in a series on the future of banking being produced by IESE and the Center for Economic and Policy Research (CEPR).

Prepared by four economists and CEPR researchers, including the IESE Professor Xavier Vives, the report notes that the legacy of the crisis is stronger and better capitalized banks, as well as more influential regulators and supervisors paying greater attention to systemic risk.

However, the crisis has also caused high leverage in the advanced economies, especially if we look to the sovereign debt to GDP ratio. Additionally, interest rates are at very low levels. All this, together with the disruption of the digital sector, poses formidable challenges for the banking industry.

These are some of the key points of the report:

- **Prudential regulation must take a holistic approach and take possible interactions into account in establishing capital, liquidity and transparency requirements, as well as the competitive conditions of the industry.**

- **Stress tests are very useful if they are well designed. An important lesson from the eurozone is that effective stress tests can only be implemented if the banking system is supported at the same time. To continue being effective, the tests must be demanding, flexible and not excessively transparent.**

- **Regulation stimulates the development of innovations that aim to escape the rigor of oversight. So as to ensure that a financial system in constant change remains resilient, the authorities need a structure to monitor, assess, highlight, regulate and supervise entities that are outside the perimeter of the regulation.**

Increasing Your Corporate Venturing Speed while Reducing the Cost

Balancing the Autonomy and the Impact of Your Corporate Venturing Unit

Corporate venturing Success Cases: Tackling the Most Common Challenges

Corporate venturing or collaboration between large companies and startups continues to gain momentum after its adoption by giants such as AT&T, Schneider Electric, Intel, Qualcomm, Samsung, Henkel, Comcast, Wells Fargo and 3M. The mechanisms through which it is articulated are diverse: venture clients (the startup becomes a supplier for the company), venture builders (they create the startup and then look for a team to lead it), exploration missions, prize competitions, accelerators, etc.

Current innovation directors need data on which to base their decisions in this area. For example, how much time and money does it take to integrate the value of the project into the company? Or, with respect to the different mechanisms, if the costs vary between them, which is the quickest or the most efficient? Also, how can costs be reduced when it comes to expediting a project and when exactly is the time to abandon it if it does not add value?

These are difficult questions to answer due to the recent phenomenon that is corporate venturing.

With the intention of filling this void, these three reports led by IESE Professor Mª Júlia Prats compile the figures and vision of 121 innovation directors (and similar positions) engaged in corporate venturing activities in the United States, Europe and Asia.

The first report predominantly focuses on what distinguishes the most flexible and cost-efficient projects, as well as identifying the seven most common myths about corporate venturing, so that business leaders can better define their strategies in this area.

The second analyzes the difficulties when it comes to finding the appropriate balance between autonomy, control and integration. Its conclusions remind us that collaborations with startups go beyond corporate venture capital, that autonomy is not just about location and that financial indicators are not the only way of measuring progress.

The third report details the experience of 22 companies in the corporate venturing field, the problems they face and how they resolve them. The conclusions and good practices extracted from these cases, that include the experiences of companies such as Adidas and Intel, can be extrapolated to multiple companies and sectors.
Whatever It Takes: The Real Effects of Unconventional Monetary Policy

It was in the summer of 2012 that Mario Draghi, president of the European Central Bank, promised that he was going to do “whatever it takes to save the euro”. And “whatever it takes” included unconventional monetary policy measures that have had mixed results, according to research in which IESE Professor Christian Eufinger participated.

In Europe, some troubled banks - predominantly in Portugal, Italy, Ireland, Greece, and Spain (the PIIGS countries) - saw how the announcement of the Outright Monetary Transaction programme (OMT) underpinned the value of the highest risk sovereign debt that they had in their portfolios. On increasing their credit capacity, they started to grant more loans. They gave them predominantly to those that were already clients – including the zombie companies that could suspend payment at any time– so as to gamble on their resurrection or simply avoid recognizing the losses on their toxic loans.

According to the research, these shaky banks were trying to delay the inevitable, helping their zombie clients to do the same with credit at a lower interest rate than that available to most of their solvent clients. As the study reveals, the zombie loans were generally granted so that troubled companies could pay their debt, hence they had to be cheap.

The consequences of these zombie loans were devastating for the PIIGS countries - particularly Italy, and to a lesser extent, Spain and Portugal -, since they distorted the market, diverting funds that could have contributed to the recovery and handicapped investment and the job creation.

The investigation estimates that healthy companies in Europe invested 12.6% less than they would have done because of the OMT program and that job creation was reduced by 5.6%. In Italy, Spain and Portugal, the most affected sectors stopped investing, on average, the equivalent of 1.5 years of capital and their job creation was reduced by 7 percentage points.

This study, cited by the New York Times and Bloomberg News, notes that Draghi possibly saved the euro during the crisis, but that the European economy would have fared better if the OMT program had been complemented by another one of “targeted recapitalization” for banks with problems and/or the banks had been forced to close.

In summary, reviving the sick and liquidating the dead could help Europe to avoid the plague of zombie loans, which are seen as responsible for Japan’s lost decade and the problems that its economy continues to have.

Disclosure Regulation and Corporate Acquisitions

In 2014 the luxury brands Louis Vuitton Moët-Hennessy (LVMH) and Hermès called a truce, bringing to an end the long and arduous dispute popularly known as the “handbag war”. The conflict had started in October 2010, when the giant controlled by Bernard Arnault revealed a 17% stake in Hermès, that it later increased to exceed 22%.

LVMH had acquired a significant percentage of Hermès without anybody noticing. Instead of buying shares, it had resorted to a series of equity derivatives, which avoided it having to declare its position.

This maneuver, also known as a stealth takeover, illustrates how takeover strategies based on the covert and gradual purchase of shares (creeping acquisitions) work.

For many, these operations represent a surreptitious and sometimes illegal way of taking control of another company. They are therefore demanding greater transparency and limits to these practices, which can be performed using various mechanisms, such as equity swaps. Others, on the other hand, warn about the negative effects that excessive regulation of the mergers and acquisitions market could have.

The regulation of takeover mechanisms to protect the interests of shareholders is necessary, but care needs to be taken with their scope, since they could restrict activity levels. Even something as commendable as establishing requirements promoting transparency in these operations can have unwanted effects.

This is what could have happened with the application of the Community directive 2004/109/EC, also known as the transparency directive. This is what is suggested by research in which Pietro Bonetti, Miguel Duro and Gaizka Ormazabal analyze the impact of disclosure regulations and the demands for greater financial transparency in the listed company purchase market.

Specifically, these IESE professors have asked whether the obligation to disclose certain information could raise acquisition costs to the point of causing a decrease in the number of takeover bids executed.

To answer that question, they studied the effects of the aforementioned directive, which imposes stricter reporting and transparency requirements on listed European companies, not only in relation to the financial information that they are periodically required to present, but also in relation to the information that their shareholders have to disclose concerning their holding in the company, whether directly or through financial instruments.

Their research confirms that the application of this directive was followed by a significant drop in the number of mergers and acquisitions. This decline has been particularly sharp in those countries with a more dynamic corporate operations market.

Additionally, the authors consider that this decline was not due to the recent financial crisis because it only affected listed companies, the only ones subject to the regulation, and because in 2013 there was an additional fall coinciding with the tightening of the directive.