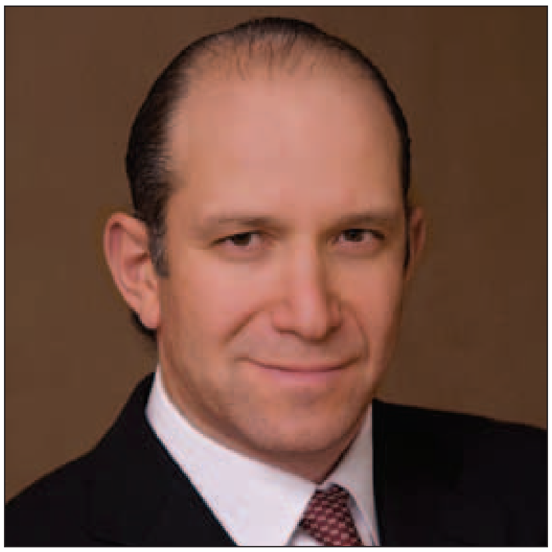
INTERVIEW

Lutnick's Legacy

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



Howard W. Lutnick

EDITORS' NOTE *Howard Lutnick is also 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 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, the Intrepid Museum Foundation, the 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. Today, Cantor is a preeminent capital markets investment bank serving more than 5,000 institutional clients around the world, recognized for its strengths in institutional equity and fixed income sales and trading and for its expanding presence serving the middle market with investment and merchant banking services, prime brokerage, and commercial real estate financing. Cantor Fitzgerald also is a leader in new marketplaces through Cantor Gaming, Cantor CO2e, Cantor Index, Delivery.com, and other businesses and ventures. BGC Partners, Inc. (NASDAQ:BGCP) is a leading global intermediary to the wholesale financial markets, brokering a broad range of financial products. With offices in 50 locations around the world and a team of 4,000 employees, Cantor and its affiliates execute over $140 trillion annually in financial transactions globally.*

How have the Cantor and BGC brands evolved and is their diversity well understood?

From an institutional sales and trading perspective, most financial institutions, certainly in America, know that they can do business with Cantor and they do. We're well known in the institutional equity and fixed-income capital markets.

It's our newer expansion into investment banking, merchant banking, and prime brokerage services that is going to add tremendously to Cantor's reputation on top of those sales and trading businesses.

In the wholesale financial markets, BGC is a leading – and consistently the fastest growing – inter-dealer broker, assisting the world's largest banks and other institutions in trading credit, rates, foreign exchange, equities, and other financial products.

How do you differentiate the products and services you offer?

In prime brokerage services, the firms that took care of the middle market best were Bear Stearns and Lehman Brothers, and now they're gone. So that high-touch, service-related business for the middle market has been underserved.

Goldman Sachs and JPMorgan are great prime brokers, but they're so big that the kind of client that moves the needle for them has to be of a certain scale. Smaller clients are not a good fit for them.

So Cantor fills a great niche, taking care of quality middle market clients by giving them a very high-touch, high-service approach.

In investment banking and merchant banking, we're not trying to be everything to everyone. We have a philosophy: we're either an "A" or an "N/A". If we don't feel that we can be the best in the world, then we'll tell clients to call someone else.

For instance, our real estate expertise ranges from lending to advisory and is as good, if not better, than any in the world. That capability led to us being hired by the official committee of equity holders of General Growth Properties in its bankruptcy. We're going to be in the mix for the largest real estate deals in the world because we have a superb real estate team, consisting of more than 40 professionals with offices in key markets including New York, Los Angeles, Chicago, Dallas, Atlanta, and Washington, D.C.

So when we're an A, we're a full and complete A.

Do you foresee moving into other segments in the future or is this the right portfolio for you?

Our model is based on twin propositions: first, by design, we are of a certain size and, second, given our size we can effectively compete with the biggest banks in the world by creating our own path.

As a partnership, the capital of Cantor Fitzgerald is the employees' money. Therefore, we have a certain intolerance for risk. That makes us an attractive partner for investors that want to be in the real estate lending business, but who don't want to do it the way Bear Stearns and Lehman did; instead, they value a more conservative approach.

We put up our capital and our expertise, and bring in considerable amounts of private institutional money. That results in scale and scope as big as any firm in the world from a capital perspective.

We recently announced the launch of Cantor Commercial Real Estate (CCRE), with $5 billion in lending capacity in the first year. We've come into the market with an impressive platform, and can also add to that because it's not all our capital. We are creating an opportunity for institutional investors to participate in something that previously was the sole provenance of Wall Street.

We will continue to use this shared model, putting up our own partners' capital and expertise along with capital from institutions that invest with us to create new companies. Rather than funds, we're building operating companies with the size and scale of the biggest firms in the world, all emanating from Cantor Fitzgerald.

While commercial real estate is our first enterprise, I expect that we may develop a half dozen of these over time. If you add them all together, that is an enormous amount of capital at our disposal. But it's applied in a way that aligns our interests with the assets we manage, because we don't really look at it with the traditional perspective of "assets under management" – we look at it as a partnership with our investors who own the business together with us.

We've designed and built a unique model. It's not for everyone and is not likely to be replicated by others, because you have to be in our particular position in the marketplace with our particular constrained view of risk.

How has BGC's business progressed since it went public in 2008, and have you been happy with its growth?

BGC had a spectacular 2010. The markets were tough in 2009, but we invested during that tornado. We saw it as a great opportunity to grow across the breadth of the business, add head count, and invest further in technology. As the tornado passed, we were in a great position.

BGC's earnings were up more than 50 percent in the first half of 2010. Whether in revenues or head count, we've outperformed the industry in virtually every category. I'm very proud of how BGC is doing, and it's well-positioned to do great things in the future.

At one time, the business of BGC, which had been part of Cantor, was number-one in the world. The events of 9/11 took that from the company. With a spectacular senior management team and world-class technology as our foundation, rebuilding the company was not only an imperative, but eminently achievable from a long-term perspective.

We still have a way to go and our aspirations are anything but static, but given our technology, our management, and our knowledge of how and where to create businesses, we're executing a strategy that should easily get us back to the top of the category.

How focused are you on the emerging markets, especially China and Brazil?

BGC has a great partnership with China Credit Trust, one of the Chinese government's leading financial institutions. We received the only license granted so far in Beijing, which we consider the most important jurisdiction in China.

There are continuing opportunities for us to grow our business in Brazil, where BGC recently completed the acquisition of one of the market's leading inter-dealer brokers.

We also announced a new office in Moscow, which is emblematic of the growth opportunity to serve clients locally, offering them broader access to BGC's global market reach.

Accretive acquisitions, complemented by hiring talented brokers, along with our massive ongoing investment in technology, are the foundations of BGC's substantial growth over the past three years, and will continue to drive our performance and growth.

In terms of the debate over financial regulation and reform, some say it has gone too far, some say not enough. Are the right issues being addressed and will it have impact?

Central clearing, which requires a party that wishes to take risk to put up the margin to satisfy that risk, should be required. It will make the markets better, stronger, and over time, more liquid because they will be safer. That means, if you can afford to put up the margin, you can take that risk with open and complete market access – and if you can't, as AIG could not, you shouldn't.

Was everything in the new financial regulatory law necessary? Of course not. It's 2,400 pages, and could not possibly all be necessary. There are huge numbers of things there that create bureaucracy.

Can there be economic recovery without job creation, and do you worry that the jobs won't come back?

It's clear a jobless recovery isn't possible. The key question is, can you have a recovery without real bank lending? I would say, you can't, and therefore you can't have a jobless recovery.

The problem now in the financial markets is that the banking industry hasn't returned to lending. Banks have vast holdings in mortgages, which are earning about 4.5 percent, and have deposits that cost them only a quarter of a percent. The current spread between their cost of money and income from their mortgage portfolio has never been better and, consequently, they don't have the incentive to lend under the Fed's current interest rate policy. The result is structurally constrained lending because banks have little incentive to take the risk of lending more money.

If a business has good credit, it can borrow in the corporate bond markets. So from BGC's and Cantor Fitzgerald's standpoint, the corporate bond markets are vibrant and doing great.

But the bank market and the insurance/private placement markets are essentially closed, and firms that are not investment grade continue to have trouble borrowing, and are reluctant to meaningfully resume hiring.

What is going to take us out of that?

It's a conundrum because without economic growth, the Fed won't raise rates, and only by the Fed raising rates will the bank spread narrow and risk reemerge so that banks again have an incentive to make loans.

Lending always represents a bank taking a risk that a borrower will pay it back. It's positive for the economy that banks take risk, but if banks don't take risk and make loans, then we can't have a recovery.

We need an environment in which banks are willing to take that risk, and it's only when the spread between their large mortgage holdings and their cost of funds narrows that they will feel compelled to go out and make money by lending.

The economy – comprising the business community and banking industry – needs confidence, which will come when the Fed figures out that it needs to raise short-term rates and keep long-term rates low in order to narrow that spread and get banks to lend again. When banks resume lending, we will see the economy recover.

Following 9/11, could you have imagined that your company would not only have been able to come back, but to come back stronger than ever? What is it about the culture that allowed that to happen?

I still find it an inconceivable thought that we've built the company to where it is today. Before 9/11, we had a philosophy that we only wanted to hire people that we liked. So if that's your policy or culture, you're going to hire people who are not only great at their jobs, but are also friends and relatives. As we've recovered and rebuilt, we continued to live by that motto.

The most satisfying element for me is that we now are able to hire the sons and daughters of those we lost on 9/11. They have such a positive view of where their dad or mom worked and how the company treated their family. They don't blame us for what happened – they hold us responsible for how we treated them after. It's such a great honor for me that one of our widows would trust us and like to have her son or daughter work at our company.

Even before 9/11, this was a giving culture. How have you been able to continue that year after year?

Bernie Cantor made it a fundamental feature of the company that we donated 10 percent of our earnings annually to charity. I grew up at this company under that dictum, so that is who we are.

But the events of any crisis don't change your spots – they just make them brighter. So we were a "10 percent company" before, but to take care of our friends and families after 9/11, we decided to become a "25 percent company" and give them 25 percent of our profits. That is why we're still here. Because we took care of our friends' families, people wanted to work here. So it comes full circle.

Has your perspective changed post-9/11? Is it difficult sometimes to take business seriously with what you've been through?

Both of my parents died of cancer so, when I was young, I wanted to help with cancer research. But I concluded that I'm better at earning money and donating it than at being a doctor.

But personally, if I had divided all my money among the families of the 658 employees we lost, it would not have been consequential. In fact, virtually all my money was in the company and basically was lost.

So we had to rebuild a serious company to take care of them, and that became our rallying cry. For the next five years, taking care of the families was my whole business purpose.

All the new people who joined the firm sacrificed, and the partners gave up 25 percent of their profits to help achieve that first goal.

I then needed to take care of all those new employees because they helped us achieve the first goal of giving the families over $180 million. In due course, we took BGC public, which helped fulfill the promise to our employees of achieving their financial goals.

Because we take our business seriously, we are also able to be serious in our commitment to continue to help others. Each year on our Charity Day, Cantor and BGC give every dollar of our revenues – that's all our revenues, not just profits – to wounded veterans, cancer research, and other causes, commemorating those we lost on September 11 and turning a tragic day into one that is incredibly positive and uplifting. In 2010, our donations to wonderful causes reached almost $12 million, and since we've been doing this, Charity Day contributions globally total $75 million. ●