

THE DAILY CHECK-IN WITH GOLDMAN SACHS

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LIZ BOWYER: Hi Paget.

PAGET MACCOLL: Hi Liz, how are you?

LIZ BOWYER: Good thanks. You work with chief investment officers of some of the largest institutional investors in the country. How have CIOs been dealing with the market volatility and general uncertainty of 2020?

PAGET MACCOLL: So, Liz, I would say that the importance of chief investment officers has never been more clear given that they've had to ride the volatility of the pandemic and manage big, global portfolios.

We work with three main types of investors: pension plans, both corporate and public, non-profit healthcare organization, and endowments and foundations. So, each of these investors were dealing with different issues through the pandemic and through the volatility of the markets.

Pension investors were dealing with the prospect of being able to pay their benefits payments to their pensioners. So, with lower interest rates, increased equity market volatility, that provided some risk with being able to pay those pension benefits. And that provided some concerns. And so, they were focused on raising liquidity and making sure they could pay those benefit payments.

Nonprofit healthcare organizations were particularly hard hit by the pandemic. You'll recall that elective surgeries were put on hold during the pandemic. And that is a big revenue driver for many of these organizations. So they had to rely, potentially, on their long-term pools of capital to fund the operations of their organizations. And so, investors were focused on how to make sure that their long-term investment pools were positioned

to be able to provide that support to the organization if necessary.

And then lastly, I would say endowments and foundations, also long-term focus, long-term investment pools. But they're tied to schools and universities. And so, these pools oftentimes help with the operations of these organizations. And when they were faced with questions around schools reopening, tuition, enrollment revenue, and other issues around that, they thought about how am I well positioned so that if I need to help support my organization, this endowment is in a position to do that?

LIZ BOWYER: So in your conversation with CIO clients, what are the major themes that you're focused on right now?

PAGET MACCOLL: I would say generally speaking, there are three main topics that continue to come up in almost every conversation we have with chief investment officers. The first is low interest rates. And the reason they're focused on low interest rates is they have to achieve a target return, generally between six and eight percent. When interest rates are near zero and fixed income is a big portion of their portfolio, how are they going to get to six to eight percent? So that's the first one. The second I would say is concerns about volatility in the market, particularly around the upcoming election. Concerns and uncertainty around COVID. So, the chief investment officers we're talking to are thinking about risk mitigation broadly across their whole portfolio, but then in each asset class: equities, fixed income and alternatives.

And then lastly, I think, what came up with the pandemic was this risk. Most people, very few people, anticipated the pandemic and this risk. So, what they did is they looked at their portfolios and said, "What other risks are we missing? What do we need to be aware of?" And ESG, so environmental, social and governance, is a topic that has been a big focus. But the fact that climate change, carbon conversion, these are risks that we've been talking about, the pandemic brought that to the forefront. So, this is a risk in the portfolios that many chief investment officers are very focused on.

LIZ BOWYER: And how is the ultra-low interest rate environment affecting how CIOs are thinking about asset allocation?

PAGET MACCOLL: Great question. So, in a low interest rate environment, as I said before, the focus is where am I going to get my target return? They need these returns, six to eight

percent as I said, because they either have benefit payments they need to pay. They need to support either the operations of their organizations. What have you. So, how do they get there when fixed income is often a bit portion of their portfolio? Larger for corporate pensions, a little bit less for endowments and public pensions.

The one place they're going to be very focused on is risk assets. So, many of the chief investment officers we're talking to are looking at their public equity portfolios and how to position that to achieve the highest amount of return for the least amount of risk they can take. But really, the biggest focus we are talking to chief investment officers about is alternatives and particularly private assets. Private equity, private credit, private real estate infrastructure. Those asset classes can provide either current yield, in the case of private credit and infrastructure, or higher returns in the case of private equity where you can achieve--they target anywhere from mid-teens to upwards of 20 percent returns.

LIZ BOWYER: So, the US election is almost upon us, something that's top of mind for investors across the board. How are CIOs, in particular, thinking about the implications of the election?

PAGET MACCOLL: Well, our investors tend to have a long-term investment horizon. So, they're investing over a five- to ten-year period. That said, they definitely need to be cognizant and make sure their portfolios are positioned for near-term volatility. And the election is certainly one of those events. There is broad consensus that there will be volatility going into the election. And should there be a contested election, there is concern over elongated volatility into 2021.

Our investors are focused on how do they mitigate that risk. So, they will think about things like derivatives and hedging. They may do that within their own portfolios. They may hire an asset manager to do that on their behalf. We're seeing a lot of different methods, a lot of different tactics to do that. One thing that's quite interesting is our quantitative equity group has actually identified a US election factor. So, they look at companies that are particularly sensitive to the outcome of the US election, positively and negatively. And so we can identify factors like that and help our clients identify where those risks are in their portfolio. And we can help them mitigate that risk.

LIZ BOWYER: And what about ESG? It was on the assent before the

pandemic. But now it's clearly in the forefront. How are CIOs thinking about incorporating ESG into their investment strategies?

PAGET MACCOLL: That's exactly right, Liz. ESG is decidedly here to stay. The global assets that rely on ESG data to make investment decisions have doubled over the past four years. They've tripled over the past eight years. They're now over 40 trillion in assets. So, CIOs are absolutely thinking about ESG like they would any other risk or return factor in their portfolios.

Historically, these assets were segmented as a separate allocation. But what we see more and more, the common practice is to think about ESG as integrated into the portfolio. So, CIOs are expecting for managers, regardless of the asset class: fixed income, equities, or alternatives, is that they have a thorough process around assessing ESG risk, measuring that risk, and now more and more, how are they reporting on that risk?

So, the other thing that's actually particularly interesting is not just broad ESG, but I would say the S factor, the social factor in ESG has gotten more and more attention through the pandemic as many people are focused on treatment of employees and diversity and inclusion.

LIZ BOWYER: How are CIOs, in particular, thinking about how those issues impact their investment strategies?

PAGET MACCOLL: Sure. So, diversity and inclusion is something that CIOs are thinking about at multiple levels. So, first they're thinking about it on their own teams. They want to make sure that they have a diverse team and an inclusive culture because research has shown that diverse teams with inclusive cultures make better decisions as investors. So, it's really an alpha driver from that perspective.

They are evaluating their managers that they're invested in the same way. So they are expecting that managers will have diverse teams. And they're trying to figure out how to measure inclusive cultures. What's been interesting is in the past, and also today, many organizations have a carved-out allocation to invest in women and minority-owned firms. That still exists today. But more and more we're seeing broad asset managers, much like ESG, integrate diversity and inclusion diligence into all of their strategies. So, looking at making sure that there is diversity on investment committees, there is diversity across named

portfolio managers. And then really trying to assess whether or not an organization has an inclusive culture.

LIZ BOWYER: Thanks, Paget.

PAGET MACCOLL: Thanks, Liz.

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