Goldman Sachs Exchanges: Great Investors
Capital Group's Rob Lovelace on long-term investing, succession planning, and leadership lessons

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Date of recording: March 13, 2024

Betsy Gorton: Welcome to another episode of Goldman Sachs Exchanges: Great Investors. I'm Betsy Gorton, a partner in Goldman Sachs External Investing Group and your host for today's episode. Today, I'm delighted to be speaking with Rob Lovelace, who's been a portfolio manager at Capital Group, one of the world's largest active investment managers with $2.5 trillion in assets under management for 38 years.

Rob manages portfolios at Capital but recently stepped down as vice chair and president at the privately held firm. I'm excited to talk with Rob today about the distinct investment process that Capital Group has pioneered, how he's thinking about macro trends in today's environment, and his lessons for leadership. Rob, thank you for joining us.

Rob Lovelace: Thank you very much. Great to see you.

Betsy Gorton: All right. So let's kick off and talk about Capital Group. Most mutual fund organizations really focus on individual investors, a lot of focus on recent performance, developing public recognition around these investors. Capital Group really does none of these things. In fact, in many ways sometimes avoids it. Why is that?

Rob Lovelace: I think it goes back many decades, and it was a fluke of history, as many great inventions or discoveries are. It was around succession planning, and we had one portfolio manager that was going to leave the firm and they were trying to figure out who the next successor should be. And it was one of those amazing moments where we had two people who were likely successors. They had very different track records. But over time, they had similar records. In other words, in any individual year, they did quite differently but over two, three, four, five years it started to look more similar.

And so in a process which has been developed now into what we call the Capital System, we realized that, by keeping them both -- in other words, not having a single successor but putting them both in the fund and giving each of them half -- you would smooth out those bumps. So when luckily, one was doing well in one year when the other one wasn't doing well, right? So if not for that perfect match, we probably wouldn't have seen the pattern. But because of that, what it meant was you got the benefit of superior results, but you smoothed out the volatility. And this is really the key of the Capital System. So for the last five decades, we've been honing and developing that system.

Betsy Gorton: And how has it evolved? That first instance, it sounds like you went from one to two. What does it look like now?

Rob Lovelace: Yeah, I think we've realized the optimal number starts at around five or six different portfolio managers. We've added yet another twist to it, which is one of those is all of the analysts put together into one portfolio manager. So if you think of it covering all the industries and geographies, if you put them together, they could be one portfolio manager. So all of our people get to manage money, which is also a key competitive advantage I think in the system.

But we have some funds and strategies that have well more than a dozen, and there's different variations that we've learned and tried on it. But the key is there are probably less than 10 distinct styles. So if you have a larger group, you're going to have some overlap. But again, not all a bad thing when you're thinking about succession, you're thinking about multigenerational money management. The key thing about the system that we've also learned is -- remember it started with succession -- what it allows us to do is to constantly have people coming in and out of the funds. For the investor, they don't even see that. Most of the time with a star manager, when someone departs, there's a big veering of the construct of the portfolio and where it's going to be investing. With ours, you can't even see those blips.

I'm in New Prospective Fund. We've had over 20 managers over the history of the fund, and you couldn't draw a line at any point in history and say that's where a change was made.

Betsy Gorton: And in addition to that, if you look at the long-term returns of Capital Group, the system has been very effective. Why do you think others haven't tried to take on this approach as well and still focus more on kind of one PM or co-PM type structures?

Rob Lovelace: This is a great question that we were asking ourselves for many decades because I could describe it to you in one sentence what we do. I mean, a multiple manager system is nothing new, and it's a very basic concept. We were a little worried that if we talked really openly about how simple the construct was, everyone would do it.

Over time, what we saw were people trying to implement it and actually not succeeding. So we learned there's more to it than just this simple division of leadership and giving responsibilities to the individuals. And so let me highlight two or three things that I think make it hard for others to implement it.

One is most firms -- and in fact many clients -- really want a single point of responsibility for a portfolio. For this system to work, you really have to delegate the responsibility to each of the managers and let them do what they want to do. You can set rules around that to make sure no one's violating the spirit of the mandate and what you're trying to do, but there can't be someone at the end of the day who gets to overlay their own view on top of it because then that short circuits the system.

We had to modify that slightly in fixed income. So for fixed income, there need to be more parameters on the fund, more views on duration and other things. So it's slightly different than the equity piece. But overall, you really have to delegate responsibility out. And for most places, that's hard for them to do.

Second of all, all of the systems, all of the computer back office, all the accounting does not match what you do with the star system. So all of our software is proprietary. Very expensive and getting more expensive over time. You can't buy something off the shelf and retrofit it to the system. So the barriers to entry are actually getting larger.

And I think the third thing is you have to have a culture that doesn't, as you said in one of your earlier comments, that doesn't promote that sort of survival of the fittest, right? Because people are going to do well at different parts of the cycle; you have to celebrate all of it. So it actually requires a sort of reverse being supportive of people that are struggling and maybe calming the egos of those that are doing really well in any key moment because that's what we're trying to do, is be better over time. And you don't want to lose those critical bear market investors during an extended bull market, which I think you're seeing with a lot of other firms.

Betsy Gorton: Right. And maybe thinking about some of the other trends that have been going on in the industry. Clearly a lot of focus has been on passive investing. Are there other things that you all have done to evolve your value proposition or the process given the rise in passive?

Rob Lovelace: I think there is a special thing about the Capital System that we're just beginning to realize right now, and it links to passive in the sense that it's very hard for most active managers to manage at scale. I've been around since the '80s. You go back to Peter Lynch and there was sort of a moment when a fund crossed a billion dollars and it was viewed as too much. And you can see it to this day. There is a certain amount of money that one individual can't manage because they begin to not be able to buy the things they want to buy. I mean, it's pretty simple math.

This is why I was saying, in some of our strategies, we have a large number of managers. Even though their style overlaps, they're not always buying the same securities. So the Capital System is pretty uniquely designed to manage active equities at scale, at larger sizes. Passive is uniquely designed to manage equities at very large scale. And from a retirement savings standpoint, from a US and world savings standpoint, exposure to equity markets is really critical. So passive plays a really important role for big flows of money that come in quickly.

Capital is uniquely positioned to add on top of that another manager that can manage at scale, dampen the volatility more than passive can, and add those extra results even after fees. That's the piece that we're very proud of. And learning how to partner with passive at the core or convince people they can get the same experience if not better with us instead of passive.

Betsy Gorton: So another focus has been into alternatives. We've seen a lot of asset managers start to move into that space. To date, Capital has really stayed focused on public equities and fixed income. How are you all thinking about alternatives going forward?

Rob Lovelace: Capital's actually been involved in private equity for multiple decades. I think one of our most famous initiatives in this was a company that was spun out with Don Valentine that you may have heard of called Sequoia. So that actually was part of Capital Group back in the 1950s and '60s. We've been involved in private equity two or three different times, and each time either phased it out or spun it out because we realized the synergies with active equity management in particular is low.

It's good business. It provides good returns. It has some of those same characteristics that we like, which is by locking up people's money, right, you get them to focus on the long term and you can take a longer view. But I think even most of the firms today, they're requiring, they're keeping their private or venture efforts in a separate entity because the overlap is pretty small. There's a lot of legal and other challenges to it.

So the question is then less whether we should be doing it but, as we discussed earlier with passive, how do you partner with it? Where does it sit in the return profile and the sort of multi-asset approach that, again, we've had for many decades? So multi-asset used to just be equity and fixed income, and now multi-asset includes these other types of asset classes.

There's an important fact, which you know and which people are growing to be aware of, that it's a pretty elite group of venture managers and private equity managers that really provide superior returns after their very high fees. So our industry has gone through a real ratcheting down in fees because we realized that's important to make sure the investor gets the benefits. Private equity and venture still has very high fees, and so you have to have really extraordinary returns to give the final return to the investors that they expect to see. And it's less than 10% of the managers that do it.

So for us, it's really thinking about how we partner with the right firms, how we make sure that clients that want that true multi-asset mix get what's fair, what's right, and what will be balanced in different ways. Eventually some of those pieces might be something that we manage ourselves, but we don't see that as a requisite in terms of a starting point.

Betsy Gorton: Now, let's shift gears here and pivot to the macro. So you've been investing for 38 years, as we mentioned at the start. The big surprise last year, really, was that the US avoided recession and stocks ended up higher. Walk us through how you're thinking about 2024.

Rob Lovelace: I had done a lot of historic research and had convinced myself that this last market cycle was similar to three big ones prior to that -- the Nifty Fifty, which there are some aspects of that we still need to pay attention to back in the late '60s; the TMT or dotcom bubble that happened in the late '90s and early 2000; and of course the Great Financial Crisis. And all three of those cycles were similar in terms of their pattern -- important deviations but still generally similar -- and they were all associated with a recession.

So the beginning of this market cycle -- or the market cycle that I would say just ended -- looked very much the same, which sort of needed a recession. And so the big news and the reason I think the market started to deviate from that historic pattern in June of last year and put us into a new place is that, in the US at least, we have managed to avoid an officially record two quarters of negative GDP, which would be classified as a recession.

I've heard some decent arguments around how we sort of had a recession. I mean, it rolled through different sectors at different times, so it never showed up in the aggregate statistics. But I'm not really sure it matters. I think the key of where we are today is just that, whatever that was, we've worked our way through it. And especially with an election year this year, we're moving into a new phase.

And so for myself as an investor, I've really tried to almost start with a blank piece of paper and not let those other pieces really weigh me down in terms of thinking about what my forecast is. But the one piece of history that I do bring forward is the work we did on the Nifty Fifty. Again, a long time ago, but it was an important comparison in the sense that, first of all, there weren't actually 50 stocks. So much like today, when it went from FAANG to Mt. FAANG to Magnificent Seven. It'll be Magnificent Eight pretty soon. Do we talk about the Top Ten? It's not a distinct group.

Betsy Gorton: How many were there?

Rob Lovelace: So the only articles we can find written about it were actually almost a decade later, and the count was in the low 40s.

Betsy Gorton: Okay.

Rob Lovelace: So it was more than 20, but I think we got 50 because it rhymed with "nifty" or who knows exactly? But it was a changeable group. But the key thing that we learned from -- that I learned from that at least -- was that there were actually a large number of those companies you were right to have bought and held through the whole time. There were others that got very expensive, so one of the lessons most people take from that is you can't buy a company at any price, even if it's a fast-growing company. We learned this in dotcom, we learned this in GFC, so that's still true. But there were great companies.

I think what's interesting about the group that we're talking about today -- whatever you want to call it, M7 or whatever name we'll give it -- many of these are good companies generating a lot of profits and not necessarily trading at super high multiples. That's a different formula than what you saw in the past. And for me, it gets back to what we do I think really well at Capital, which is fundamental research, bottom up, getting to really know the companies, and I am still very much in the belief that many of these companies have been good to hold and will continue to be good to hold.

Should they be bought as a group? No. It's a made-up group, and it's a backward-looking construct. So it will be an interesting period going forward. And market concentration is not just a US phenomenon. We're seeing the same thing in Japan. We're seeing the same thing in India. We're seeing the same thing in many different countries around the world. That concentration probably speaks to something else that's happening, and over time we have seen that concentrate and then dispersed return profiles come and go.

Betsy Gorton: Is there anything else that you do differently during periods where, you know, from an active management perspective, during periods where these benchmarks get so concentrated?

Rob Lovelace: I think one thing is the system -- and I mean this really broadly -- like, the rules of how mutual funds are managed are designed to prevent anyone from being overly concentrated. So when the market becomes concentrated, it always creates challenges for active managers because we are always trying to think about a smoother ride. And so we will always diversify. If the market's not diversified, that will always create different challenges.

So I think all of us look at something like passive, which is definitionally going to own all of these big companies at the size that they are in the benchmark, and know that the volatility there is going to be a factor at some point in the future that will present issues. We are seeing a number of those companies, though, that we still want to buy and hold, so we're not super far away necessarily from it. And there are also other ones where we think combinations of smaller companies look better than necessarily owning that. So you can be exposed to the whole technology stack of, say, Apple by owning a number of other companies that make the component parts and are exposed to different sectors. So there's different ways of getting similar exposures while being more diversified that I think will pay off over time.

Betsy Gorton: And you were part of the team that ran the world's first-ever dedicated emerging market fund. And you mentioned previously that you're a portfolio manager on Capital Group's New Perspective Fund, which focuses primarily on multinational companies with strong growth prospects. So in light of everything that's going on in the world and many of the geopolitical tensions, shifting supply chains, and many other things, how are you thinking about investment opportunities outside of the US?

Rob Lovelace: Well, your question started a little bit with emerging markets, so let me start there and then I'll talk more broadly. China really changed the world of investing. I'll stop short of going large in that, but China definitely changed the world of investing because, for many of us back in the 1980s, the prospect of China being a major market that we could invest in, in and of itself, was unbelievable. So it's interesting to think how much the world has changed in terms of that.

But China, as such a big market and now such a big stock market, is clearly something that we've all been focused on for a long time in terms of doing business there. But what has mattered and what is impacting all of us so much is both an internal challenge and an external challenge.

The internal challenge in China is that the current regime has definitely made a decision -- and some prior -- they've made a decision that they will manage the profitability of Chinese domiciled companies. So it's like all companies in China are regulated. So they reserve the right -- and we've seen them act on it -- they reserve the right to decide if a company's making too excess profits, too much profit, or that they don't like the spirit of the leadership of the company, they reserve the right in any company to go in and change management, to ask the company to return profits to the government as a tax or other form of transfer of that money, have them purchase companies that the Chinese government wants them to purchase.

As a result of all those moves, the total return of the Chinese stock market over the last 10 years I think really since it started is about zero. Zero. Just to give you a comparison, the US market has compounded double digit, more like 12% to 14% over that same time period.

Earnings growth has been similar in the two places. So earnings are being generated in China to an extent, but they're reinvesting it not in the most profitable areas. They're investing it in other areas. So they have this big internal issue that, while the economy is growing and the companies are doing okay, it's not being shared with minority and especially foreign investors. So that's a really important internal issue, and that's affecting all of emerging markets and the way we think about it.

If you look, though, at companies that do business in China -- Starbucks, some of the auto companies -- they've actually done well and they've been able to get some of their money out. So it's actually turned out to be better to invest, way better to invest in China through multinationals, which you can see in some of our other strategies, than it has been to invest directly in China. And this is a really interesting internal/external challenge.

The last small twist which I mentioned is now it's not just the Chinese government that's getting involved, the US government's getting involved. And it's now beginning to limit what companies we can consider investing in if they're viewed as being connected at all currently to the Chinese military, which is a big economic player, not just a military player. So all of these things make it very hard to invest directly in China, but it doesn't mean we shouldn't pay attention to the growth engine that China is in many different industries. And that nuance is very hard sometimes to explain to investors.

Betsy Gorton: And are there other countries where it's more the opposite, where you do want to go directly into the domestic companies?

Rob Lovelace: I think it's probably true everywhere else. I mean, I really have never seen anything quite what like China has done in terms of a willingness to effectively intervene in the capitalist market. They've been more shy about doing it with companies domiciled elsewhere, but they have no problem at all doing it internally.

I lived in Singapore for a number of years, and I know Malaysia had a similar impact on the Malaysian market. And it's probably not a shock that you and I don't talk that much about the Malaysian market, right? Because the markets where you do that, they tend not to grow.

We've always found it's best to have a global view and find the best companies wherever they're based as opposed to really caring about where they get their mail. And back in the day, in the '70s, when global investing got started, it mattered. We sort of had to prove to ourselves that you could make money investing outside of the US. The US was the only game in town for '40s, '50s, '60s. And at that point, geography was a good way of discerning sort of this and that or one or the other.

Today, the big companies are all so multinational, it's all gotten very blurred. So here are some fun statistics for you. So in Europe, if you look at the European Index, more than 60% of the revenue in Europe comes from outside of Europe, mainly from the US and China. So if you're buying a European passive vehicle, you're actually getting 60% of the revenue of what you're investing in from the US and China.

In the UK, it's above 80%. So even if you bought the benchmark in England, you would not be getting British stocks. In the US, it's about 35% that comes from outside the US. Japan is similar. Japan and the US are more domestically focused, but still any fund you buy is a global fund.

Let me just say this again. If you buy the UK benchmark, you are buying a global fund.

Betsy Gorton: From a revenue perspective, yeah.

Rob Lovelace: So what I would suggest then is don't kid yourself and think you're not getting global exposure when you're trying to invest by country. Let your manager be a global manager and find the best companies wherever they’re based. This is why we have research analysts all around the world. This is why we compare Adidas to Nike. This is why we look at all the different options because sometimes it's the domestic company you want to own, sometimes it's the global competitor, it depends on where you are in the cycle. And if you don't look at it that way with that breadth and knowledge, you sometimes make the decision just because that's where they get their mail.

Betsy Gorton: And before we leave this, so Japan. I think it's just hitting its highs from the late '80s. Any additional thoughts on Japan right now, given this moment?

Rob Lovelace: As a multidecade investor, I have to say I'm so happy to see Japan back because, when I started, Japan in the '80s was a bit like China feels right now and people were learning Japanese, they were buying real estate in California, if not New York, and they were really riding high. And so no one ever would have predicted after the '89 stock market crash there that they would have more than three decades of deflation. And so for all the complaints I hear in the US economy about whether we overstimulated, you only have to look at Japan to know how insidious deflation is. Deflation is a big issue.

So whatever we did, we took some risks, caused some problems, maybe it's going to be inflationary. Inflation is a much easier problem to solve than deflation. So I'm calling it a win. And Japan, after decade, after decade of trying different ways of breaking out of that spiral have finally broken out of it, and it's so exciting. And we're just at the beginning of that.

So we're super excited about what's happening in Japan right now. Our analysts are all over the place, trying to look especially at some of the smaller and mid-cap stocks. And a little more domestically focused because, historically, all we've really known in Japan are the multinationals -- the Sonys and others that we know of the consumer products or the brand name, the Nintendos. But they get a lot of their revenue from outside of Japan, and so this is a moment where we think some of the domestics might be really exciting.

Betsy Gorton: Okay, great. So in addition to being a renowned investor, you've also been a great leader, so let's talk about that for a few minutes. So your grandfather, Jonathan Bell Lovelace -- or JBL, as he was known -- founded Capital Group during the Great Depression. You and your brother have spent your entire careers at the company. What's it like being a member of the family who founded the company but doesn't today control or run it?

Rob Lovelace: Well, obviously I feel very fortunate. I'm proud of the family and am involved in part because of it. But I think it would surprise most people to know that it wasn't inevitable in any way, shape, or form that either my brother Jim or I would end up at Capital. And that I think is the differentiator and makes it very comfortable for us to be there even though it's not really a family company anymore. But the family imprint is very strong on the company and the culture, and I think that part will continue.

You know, JBL -- well, I think one of the funny things is we go by initials in part so that it deemphasizes the family name. The quick story of initials, everyone at Capital has initials. It's a joke in the whole industry. But it goes all the way back as a company founded in the 1930s, as the company grew and they were typing the memos, there wasn't enough space to type everyone's names, so that's why they used initials so you could have a distribution list at the top with a mimeograph that you had to type all the way through the page. The initials remind us that we're almost a 100-year-old company.

Betsy Gorton: That's great.

Rob Lovelace: So JBL, the founder, and then my father, also John Lovelace, JL, was the one I think who really put the cultural mark on it. And JL, really in the

1970s and '80s, really was pushing ownership to make it much more of a meritocracy. And it's owned now -- privately owned -- but owned by the employees with hundreds of shareholders, but they're either all current or recently retired.

And so that was in the DNA of the company from the beginning; it was the plan. I always knew that going into it, but I was really interested in the industry and have been lucky to be there during this whole period of time. So it's very comfortable for me. And I think it is unique in the industry, though, to have that foresight that they had.

I think he would be tickled to realize it took 100 years for all that to play out, for what is now going to be, continue to be, a very well-run company going forward that hasn't really needed the family in that sense for more than 50 years.

Betsy Gorton: And so you recently decided to step down as president in the day-to-day management of the business. You'll continue your role as portfolio manager. You spoke a little bit at the beginning about how Capital thinks about succession among investors. Is there more about how you thought about it around leadership and, again, the day-to-day management of the firm?

Rob Lovelace: Yeah, I mean, I guess in some ways that it's another aspect of the DNA. So succession planning is something that we began in earnest a decade ago. So Tim Armour, Phil de Toledo, and myself were in the three top positions with a management committee around us, another several individuals, who were really running Capital for the last decade. And from the minute we started a decade ago, we began thinking about succession.

And I think that's sort of what all of us have learned, right? It's job one, when you get a new job, is thinking about who can replace you. And it changes your mentality as a leader when you already know who's going to be that next person, right? You just think about things differently.

And so to deny that or to defer that decision makes it much harder when you finally get to that point than it does if you start thinking about it right away. And one of the key reasons is, if you have to think about succession right away, you have to think about what you're doing right away. What is the job? What am I really here to do? So it's a really nice opener actually for thinking about where you're going to go.

So we had agreed more than a decade ago that, at the age of 63 -- no one randomly picked 63 so it meant it was a debate between 60 and 65. The 65 group got the shoutout on the round-up. So at 63, we would each step down from the management committee. And we were, you know, 50 year olds at the time. It seemed like a perfectly logical and long-term thing. Now that I'm there, we're all following through on it, which I think is also critical. And it's letting the next generation come in as a group, again, with three new leaders. Super excited about what they're already doing and adding energy and taking Capital in a whole -- not a whole new direction but with a new sense of energy, doing a lot of what we've always done but in a more dynamic way.

And so it's hard to do, and I'm so proud of it at the same time.

Betsy Gorton: And Capital's been able to remain private over this whole time. Is there more that you think really supported the longevity of that structure? And also what have been some of the challenging parts of maintaining it?

Rob Lovelace: I think, again, it goes all back to the DNA of this idea of starting -- when we started investing in the 1930s, the goal was always to be a multigenerational asset manager. And that succession idea was there right at the beginning. The Capital System itself was developed thinking about succession. How are we going to be a multigenerational money manager so that people actually could invest with us and stay with us for their lifetime?

I still get letters from people whose fathers or parents invested for them in one of our American funds, and they just paid for their wedding and there's 10 times more money in the account because of compounding and all these other great things. That's a wonderful aspect of what we all want to have in the industry and the power of savings and the stories that we can tell. So that aspect of succession has always been there, and I think it lets us manage money with a longer focus. Because if you know you're going to be in a place for multiple decades, you can actually see the fruits of investing in stocks for multiple decades. If you think your job is going to be for five years, you're not going to think about stocks you're going to buy and hold for ten. So it all feeds together. The money management system, the leadership approach, all these different things come back together.

And in a private company, it's just so much easier to maintain that. And because all the shares were sold by the family to the employees, it's this giant "pay it forward" structure. So everyone today benefits from the generosity of someone else. So to consider changing that system would be an act of greed.

And it brings us together in yet another way to stay focused on all of these important decisions that were made in the past that still affect us today, that keep us on that same track. And I think that's a very differentiated model than you're going to see at either a company that's gone public or even a private company where the family maintains control.

Betsy Gorton: Right. And maybe we can talk a little bit more about the role that culture has played in that as well. So I think the employees are referred to as associates primarily at Capital. Self-promotion avoided. Also, you mentioned about how investors are really supported, particularly during periods where their strategy or style may be out of favor and they're underperforming. Talk to us about the culture and how you've been able to maintain it.

Rob Lovelace: Well, we refer to our employees as associates, for sure, but a very large group -- anyone who's involved in the ownership -- we refer to as partners. And that isn't the proper legal term because we're not a partnership, but when we stopped and thought about it, it's the right word for actually what the shares represent because it really is being invited to be a partner in the ownership and the running of the firm. So all of the terminology matters. All of it lines up with this idea of, if market cycles are going to be longer -- and when we started, by the way, you know, 4-year was a pretty typical market cycle. But now that we're in 8- or even 12-year market cycles, we're trying to figure out how to make sure that we've got the people that can stay through that whole cycle, can invest through that whole cycle, and we can get the benefit of those people that really only do super well in those few bear years of the markets and stick around and have a nice career and feel supported all the way through it.

So it's why we don't celebrate the stars because then all your bull market investors are the ones that always get the high fives all the time. So it's why you don't really associate a lot of individual names. In some ways, it creates tension because everyone who's analyzing us, a lot of our partners, want to understand exactly what's happening internally. And there are some people that will have subpar results for several years. If one of those is a bear year, I'll take action on it. But if it's been seven years of bull market, we want to be able to be supportive of those people.

So we're trying to get better at explaining the system to others, but it's really designed, all of it, the way we refer to each other, the way the ownership is designed, the way their compensated, we pay on 8-year, 5-year, 3-year, and 1-year bonuses. Eight-year bonuses. Most firms don't even have investors around long enough to pay an 8-year bonus. All of this is baked into our compensation systems. Our investors are not paid based on assets under management. There's no benefit of trying to have more under their umbrella. They're there to make sure they do well at the part of the cycle that they're trying to do well in. All of it feeds together in a very positive way.

And you can see in that environment a culture of caring, a culture of kindness, a culture that focuses on the long term, a culture that focuses on clients and their needs so they come first. Like, all of that is very natural when you have that design around it.

Betsy Gorton: Great. Maybe shifting gears to thinking about innovation. What are you most excited about from an innovation perspective either as it relates to the asset management industry or the market more broadly?

Rob Lovelace: I think Capital Group in general tends to not be bleeding edge in any of these innovation, but we tend to pay attention to, again, those things that we think have longevity. And we're usually a little late to show up, but when we get there, we come in strong.

So 529 college savings types of plans, we were one of the last movers and are now one of the bigger players in the industry. Even target date I think we resisted for a bit but now realize how important it is and the multi-asset types of structures that come off of it, we've learned a lot.

So looking forward, I would say there are two or three areas. One is the whole industry was wrestling for many, many decades how to do ETFs in the active equity space. Little bit easier in fixed income but still not a lot of assets were going there. It was mainly going to passive. We think we've got a structure that we're very comfortable with now. You've seen a lot of growth in that area. Now it's almost become -- it's not really a big technological breakthrough in that sense because, now that it exists and a lot of us moving into it, it really gives the investor the ability to choose which wrapper they want.

There are real benefits to the mutual fund wrapper, so I hope we don't lose that and I hope that the tax and other authorities realize that they need to keep the mutual fund environment healthy. There are real uses to ETFs, and there are real uses to investment trusts and real uses to mutual funds. So I hope that all of those stay strong, but the innovation there I think is probably slowing down a little bit. The wrappers are the wrappers, and they'll be there for whatever constructs you want.

We have talked a little bit about alternatives. Generally, private equity, venture, private credit. Those definitely have a place in these broader multi-asset portfolios, and we're all now I think trying to figure how to get that balance right to make sure people get the right exposure to it. But I do think there's a fee issue in the private side that needs to be worked out so that we're returning enough of the benefits to the final investor, but we'll get there. We'll figure that out. And Capital's looking I think mostly for ways to partner, but again we've been in that industry for many decades and we'll probably continue to do a little bit there.

Beyond that, the big challenge that we're all wrestling with is getting people invested and keeping them invested, right? And anything we do that sort of scares them or overly encourages them to change vehicles or move around is sort of the enemy. And we keep adapting ourselves more to try to find ways as in target date, as in multi-asset, that keep people invested. I mean, one of my favorite innovations relative to target date is, if the name of the fund is the 2050 fund, you're just not going to day trade that one, right?

Betsy Gorton: Right.

Rob Lovelace: So it's these small -- but it's a small thing, right? But just getting the names right and being thoughtful about how it works, getting people invested, keeping them invested is what it's all about. And that's what our innovation is always focused on.

Betsy Gorton: So a little bit more on you. Outside of Capital Group, you're also very active in your community. You founded the Value Schools and the School, which serve populations of students who have been historically underserved. Last year, you took a new role as chair of the J. Paul Getty Trust. How do you decide what activities outside of the office to devote your time to?

Rob Lovelace: So it's actually very linked to Capital, believe it or not. Capital Group has a very interesting model for philanthropy. So rather than it being focused on corporate giving, instead we turned it upside down and it's done through a lot of matching. And we will match our associates' time as well as their giving, but there's a real tradition at Capital Group of giving back to the community and philanthropy and the company then moves behind that. And I think that's a powerful message.

So it's all up and down the chain. So I obviously grew up seeing my parents -- my mother recently passed away; she was recognized as an amazing philanthropist. And so I grew up and that's just how the world is. When I arrived in Los Angeles to work with Capital in the 1980s, homelessness was an issue then and I remind people that, for all of the wringing of hands today, it remains an unsolved issue but it's not a new issue. And the more I dug into it, the more I realized one of the best ways to get at it actually was it's hard to solve when people are already in crisis. We can do more there, but that's not where you solve it. Education actually became the answer.

The more you could do to keep people in school and graduate then the more likely they were to have jobs and stability and less likely to fall into some of these traps. That's why I was involved in founding a set of charter schools and a private school and, in particular, focused on underrepresented groups. Most people wouldn't have connected those dots, so it's why I like to share it.

But in general, when you look at my wife Alicia and my philanthropy, it's very greater Los Angeles focused, very focused on underrepresented groups, but it's sort of a modern version I think of the civically minded philanthropist and trying to help in the arts, the Getty, trying to help in public and foreign policy. I'm involved with the Pacific Council. Very involved in education. All of those different things that I think make a community strong and thriving are areas that we try to be supportive of.

Betsy Gorton: Great. So to end these sessions, we like to do a quick lightning round, so we'll get started with that. What was your first investment?

Rob Lovelace: Oh, that's easy. It's Hasbro. I think I was 15 years old. So a toy company's probably not going to be a shocker. And they were very technologically innovative back in the '70s. I still own it. I still own it. The American funds did way better than Hasbro, though, so I'm glad I had more American funds than I did Hasbro.

Betsy Gorton: Okay. What was your biggest lesson you've learned as an investor?

Rob Lovelace: I think it's actually patience. It's harder to find good companies than people think. I think a lot of investors always focus on their mistakes and how to fix their mistakes. It's really hard to find a great company that's going to compound over time. And when you find them, you need to hold onto them. You need to hold them even when they get a little bit expensive. So, yeah, that patience and holding onto good things.

Betsy Gorton: Which investor do you admire most?

Rob Lovelace: It'll sound self-serving, but my brother, Jim Lovelace, is doing incredible things at Capital Income Builder and a few of our other strategies. Maybe it's because we're cut a bit from the same cloth, but I can really relate to his long-term approach.

Betsy Gorton: And how about your biggest mentor?

Rob Lovelace: Again, I'll go to the predictable but John Lovelace, JL, was such an interesting people-focused person. He really designed the Capital System and was thinking about what Google and others wrestle with today. How do you really get a group of people together, different backgrounds, and get the magic to happen from those groups? I always have found that fascinating, and it was a bit like working with Yoda. He never really gave direct advice; you always had to discern it. But maybe there's a power to that, too, right?

Betsy Gorton: Yeah.

Rob Lovelace: You sort of feel like you own it more when someone gives you indirect advice.

Betsy Gorton: What's the best piece of investment advice you can give to our listeners?

Rob Lovelace: Given everything that I've said, the best investment advice I can give is: Be patient. And when you've made an investment decision, really try to stick with it. Lastly, I would say everyone needs advice. The do-it-yourselfers, I respect you but this is a team sport. And so get good advice and focus on the long term.

Betsy Gorton: And lastly, what are you most excited about in the world right now?

Rob Lovelace: You know, I'm reading a book right now that talks about how different the world is today than it was 30 years ago and then 30 years before that. And how even someone from the 1990s were to show up today, how they wouldn't recognize the world. And I find it with myself when I'm often telling a story, like, "Oh, yeah, this story's only funny because there were no cell phones at the time," or whatever those different pieces are. So in that construct, thinking 30 years from now, what's that thing that's going to make it unrecognizable to us? And I think it's two things.

One is quantum computing and the other is what's both related to that and on its own is what's happening in healthcare. So the ability to really cure and get at some of the mental health issues, just sort of long-term health and curing of diseases right now that seem unable to be dealt with. But the speed of computers will change all of this in a really interesting way.

And for all of the naysayers that would take everything I just said and worry about it, I also remind them that all the books written during the Industrial Revolution were pretty grim, right? The world is going to be laid waste, sort of a Malthusian kind of dystopian construct. And we found our way through it. And so for all the concerns about AI and these different issues, yeah, it's going to be very messy but somehow we find a way through it. So I'm really excited and really hopeful about the next 30 years.

Betsy Gorton: Great. Rob, it was an absolute pleasure having you on the show. Thank you for joining us and sharing your perspectives.

Rob Lovelace: Thank you. It's great to be here, Betsy. I appreciate the time.

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