

Talks at GS with Dawn Fitzpatrick
Moderated by Katie Koch

KATIE KOCH: Welcome to our continuing series of Talks at GS where we have the opportunity to speak to some of the world's greatest investors. My guest for today's episode is Dawn Fitzpatrick, who of course is the CIO of Soros Fund Management.

Dawn, thank you so much for being with us.

DAWN FITZPATRICK: Katie, thank you and Goldman for having me.

KATIE KOCH: Great. So, I want to start off on the pandemic. You were in a position to be quite offensive at that moment in time. Why was that? And how did you position the portfolio coming out of it?

DAWN FITZPATRICK: When we went into March, especially early March, there was a lot of unknown in terms of the path of the virus and the economic impact. And it's interesting, when you compare kind of market price action of COVID 2020 to the financial crisis which was a little more than a decade ago, in that financial crisis it took about a year and a half from peak to trough. And that was about a 55 percent correction in the S & P 500. And investment grade credit spreads, for example, widened by about 256 basis points.

In COVID 2020, in 23 trading days, we moved lower by about 33 percent in the S & P 500. And investment grade credit actually moved wider than the financial crisis. So when we looked at that opportunity set, we really wanted of the lean into credit products. And we were able to deploy about four and a quarter billion dollars in pretty short order into those products.

And when we were thinking about where to put money to work, you really needed two things. You needed markets to dislocate. So, you wanted assets to be cheaper. But you wanted more than a buyer strike. You needed, actually, sellers, force sellers. And again, using investment grade, corporate credit as an example, you had back to back weeks of over \$35 billion in outflows. And to put that in context, those were the two biggest weekly outflows in history. And the third biggest was about 5 billion. So it dwarfed anything we had really seen before.

And the other thing that really factored into our decision, and this goes back to the unknowns, is we knew if we bought credit products that had gone in pretty short order from par to 80, we didn't need to depend on the next marginal buyer to show up. We were happy to hold these products. Clip our coupons and hold them to maturity. In hindsight you could have bought anything because (UNINTEL - 0:03:29.0) and fiscal policy was so rapid. So, those were the things that were interesting.

And the other thing that I think is important for investors to think about is the speed at which, you know, the Fed and government stepped in, was a function of this was largely considered not to be manmade. I think the next crisis, understanding the cause will impact how quickly cavalry arrives and how quickly you want to buy a dip.

KATIE KOCH: You've talked a lot about credit and the opportunities you took advantage of during the recent dislocation. When you look forward, where are you seeing some of the best opportunities, either by asset class or geography?

DAWN FITZPATRICK: Absolutely. So, when we look at corporate equity or bonds, to us, kind of, buying broad indexes or betting on spreads, generally, is hard here. It feels like valuations are pretty rich. But this year has been an extraordinarily good year for security selections. So, picking the winners from the losers, and you've heard a lot about how COVID really accelerated some secular trends that were already in motion. So, rather than betting on beta in those types of markets, we're really placing our bets on picking the winners from the losers.

And something else that you've seen this year that makes that easy to put money to work in that regard is activity in capital markets. So, you've seen record issuance of both debt and equity. And that provides a lot of good entry and exit points that we've been able to capitalize on, away from equities. When we looked at real estate, we leaned into kind of nonqualified residential mortgages in March. And we largely held those. And we are big buyers of the residential housing team, generally. On the commercial side, we don't have any exposure there. And it feels a little bit early to us.

And the last point I would make in terms of positioning is we run a portfolio for a big foundation and a lot of people kind of benchmark off of 60/40. You know, we think inflation isn't properly calibrated in a lot of risk assets. So we're significantly shorter duration in our portfolio set up than an index 60/40 might be.

KATIE KOCH: When we look forward at Goldman Sachs, we also have this concern around the traditional 60/40 portfolio, really for all savers, individuals and institutions, are people really going to be able to meet their true return targets over the next decade? What are you doing to combat that potential lower return environment, if you agree with that thesis?

DAWN FITZPATRICK: The returns we produce are understood to support kind of the work of the Open Society Foundation throughout the world. So, it's really important that we can produce a durable, quality return. And when we think about going forward, we really think it's going to be more

about active investing. And for us, it's also about leaning into our strengths. So, where the platform that we're part of and the assets pool we run, where we can do things differently than typical asset managers or other foundations and endowments.

KATIE KOCH: Dawn, can you give us a sense of the philosophy of ESG at Soros Fund Management? And is it influenced at all by the fact that I think your largest client is the Open Society Foundation?

DAWN FITZPATRICK: We are passionate about ESG. And it matters a lot to us. When you look at ESG, it was building momentum across the asset management industry for years coming into 2020. But COVID really accelerated that momentum. And the two things that we're really focused on is, first, diversity, equity, and inclusion. And you know, from our perspective, there has been a lot of "check the box" activities by corporates and asset managers in that regard. I think going forward we, and investors at large, are going to demand far more granularity in terms of the measurement, and real demonstrative progress.

The other area that we're very focused on is kind of a greener future. And I think it's about creating cheaper capital for companies and kind of innovators working on climate solutions. And also within industry, differentiating between players who are doing the right thing today and going forward, and those who are kind of dragging their heels. And just like with diversity and inclusion, I think the measurements and the accountability is only going to get better and better. And I think if you're an investor or a CEO or CFO, you ignore these trends at your own peril.

KATIE KOCH: Dawn, when you joined Soros Fund Management as a CIO in 2017, what ideas did you have about the investment culture that you wanted to build? And how did you go about doing that?

DAWN FITZPATRICK: So, I was lucky, early on through sports and then through my first job at O'Connor, I learned the power of a good functioning team. And I'll bet on a good team over a super star individual every day of the week. So, one of the things when I came to SFM, and we talked about it, we defined kind of our competitive advantages. But then making sure that we were positioned to lean into them. And for me, to do that well we needed collaboration. We needed better transparency and alignment and communication. And those things, they sound good on paper. But you can't really force them. You have to create an environment where they can happen organically.

So, we did very, very simple things like shrinking the physical footprint in which we all sat. So, people were forced to bump into each other and talk about what they were up to on the investment side. We started kind of an IP library where everyone saw kind of the research,

different themes we were working on. And the great thing is over time our biggest and best investments started to be where there was overlap across teams. And one of the things we did was every time we had a big win like that, you know, we really were on a bullhorn for the rest of the team. And it really is one of those things that builds momentum in a really powerful way.

KATIE KOCH: What do you think differentiates a good investor from a great investor?

DAWN FITZPATRICK: First of all, and we touched on it before, but understanding what you're good at and understanding where you're kidding yourself. An example of that is in equity long/short managers. I've seen in my career; I've worked alongside some really spectacular equity long/short managers. Almost every one of them thinks they're good at timing markets. If you actually look at the data, they tend not to be great at timing markets. But I think it makes them feel good. But really knowing what you're good at.

The second thing, and this is related to that, is patience. You know, there's not a great investment or a great trade every day or every week. So, waiting for kind of that fat pitch. And then kind of going after it in an aggressive way, I think, serves people well. And I've seen people get antsy and put money to work in ways where they didn't have proper conviction. And that tends not to end well.

KATIE KOCH: The industry has obviously evolved a lot over time. What advice do you have for someone starting off in a career in investing now?

DAWN FITZPATRICK: So, I would say private markets are far less discerning than public markets. Choose wisely.

KATIE KOCH: Okay. I like that a lot. Well, Dawn, thank you for being with us today and allowing us to ask you so many questions. We're extraordinarily grateful for your time. Thanks for being here.

DAWN FITZPATRICK: Thank you so much for having me.

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