

Talks at GS
Joe Bae
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Joe Bae: I think a huge part of what we think about as success is making sure culturally, again, we're creating an environment where people could be their best selves.

Alison Mass: Hi, everyone, and welcome to Talks at GS. I'm Alison Mass, chairman of the investment banking division. It is my great pleasure today to have my friend and client Joe Bae join us. Joe is the co-chief executive officer of KKR. He's been with the firm for 26 years and was the architect of their expansion into Asia. He also presided over building the firm's private markets businesses. And in the wake of a rising wave of violence against Asian Americans last year, Joe helped launch TAAF, the Asian American Foundation, to support and mobilize members of the Asian American Pacific Islander community. So, Joe, thank you so much for being here.

Joe Bae: Of course. My pleasure. As an ex-Goldman

analyst, it's coming back home, so thank you for having me.

Alison Mass: Well, I have to begin with that, the fact that you're a GS alum. Your first job out of college was here, working as a private equity analyst back in the 1990s. And none of us can really picture that now. But I read that you had very little furniture in your apartment, save for a futon that you brought with you from school. So how does it feel to be back?

Joe Bae: Well, I was kind of hoping to be at 85 Broad again to really relive the experience, but, you know, my year out of college, I worked that Goldman PIA for two years as an analyst in New York. I was actually rooming with one of my classmates, another Korean American, this guy, Jay Yang [sp?], who was an analyst at Goldman Sachs as well. I don't know if this even exists, but we lived up in an apartment building on 96th Street on the East Side called Normandy Court. So we shared --

Alison Mass: I think it still does exist.

Joe Bae: We shared a one-bedroom apartment, and it was on 96th. So we had the express green line. So that's why. It was cheap and it was conveniently located to the subway. But it was a great couple years.

Alison Mass: So as I understand it, the financial services industry wasn't always on the horizon for you. When you were growing up, you briefly considered becoming a classical concert pianist. And your dad would actually record your piano lessons and play the recordings back to you on the drive home to make sure you did not miss any piece of wisdom from your teacher. So what did your father's strategy teach you? And have you been able to call upon those lessons and apply it to your professional life?

Joe Bae: My lessons were usually at 9:30 to 10:30 at night because I had to wait for my dad to come home from work, have dinner, and then he wanted to drive me to my piano lessons. But it showed me extraordinary commitment on his part in terms of making sure I took it seriously.

But I think music itself is an incredible discipline for young

people, to be able to practice two, three hours a day, to really find something you're passionate about. As an investor, it's what I hope people at KKR find. Something they really love doing, some curiosity. It's also very humbling. It certainly was humbling for me coming out of high school knowing I couldn't take that career any further. Makes you acknowledge your own limitations in terms of how far you can get. So it's been a great part of my life, and it's still a meaningful part of my life here in New York City.

Alison Mass: What's so interesting is that you almost didn't end up at KKR. Your career came down to a fateful moment when a recruiter called you two weeks before Harvard Business School and you were already settled in your dorm by then. So what was the pitch to join KKR? And having already been accepted to HBS, what made you take that leap?

Joe Bae: Well, as I said, I started here in PIA, so I was doing private equity as an analyst right out of college. So I knew it was an industry that was really fascinating and that I wanted to spend more time in. And everyone had

heard of KKR, right? It was a legendary firm, even in the '90s. Everyone had heard of it. And I had never, ever met anyone from KKR, even when I was on Wall Street for two years.

So I was married at the time. I was up in my dorm room at Soldier's Field Park at Harvard Business School. And this headhunter literally called out of the blue and said, "You're one of the few people on Wall Street with two years of analyst experience in private equity. KKR's going to hire two people in New York as analysts, and you'd be crazy not to come down and at least talk to them."

And I was, like, school starts in seven days, right? They're like, "They can make decisions very quickly. Don't worry about it." So I jumped in the car. I'd always wanted to meet Henry Kravis and George Roberts. So I spent a day in New York meeting all the partners. They put me on a plane that evening. I went to California out in Menlo Park. Met George Roberts and the colleagues there. And I just immediately new, like, these were the people I wanted to work with. It was an incredible culture. So much mentorship. I knew I was going to learn a ton by being

part of this firm. And my dad was very upset. You know, he was, as a good first-generation immigrant son, I kind of broke the golden rule, which is, like, get as much education as you possibly can. And for him, the notion of turning down Harvard Business School was just unimaginable. But I think 26 years later, he's come to realize it was the right decision.

Alison Mass: Yeah, I think the rest is history. So your big break, or one of your big breaks, came around 2005 when you were tapped to go to Hong Kong and build the firm's Asia Pacific business. And today, KKR is considered the most successful global investment firm in Asia. So tell us about that journey, building your team, and how the investment opportunities have evolved in the region since you began working there.

Joe Bae: Sure. I'm sure, like all of you in this room, at a certain point in your career, you want the next big challenge. So I had done ten years in our US private equity business. I had just made partner. And the question was: What's next? I wanted a really big challenge. I knew I wanted to stay at KKR. I had no interest in leaving the

firm, but I wanted the next big opportunity to go learn something and really stretch myself.

And that's one of the great things about KKR. Our firm has been growing for 45 years. There are so many new businesses that we're in today that we've created in the last ten years. And Asia was one of those incredible opportunities that I was given to actually go start a business from scratch. We had no people in Asia. We had never invested in Asia. So it was really a startup in the context of KKR.

I think the most critical thing that our partnership spent time talking about was strategy. How do we really differentiate ourselves if we go to Asia? And that really all came back to people at the end of the day. We localized our business from day one. We have eight offices today in Asia, over 350 employees out there, and maybe two or three ex-pats. It is a very local business across eight different offices. And that's critical. For our business, you have to be local. You have to be in those local communities. You have to have those local relationships and networks to access the best opportunities.

I think what's changed for our business is it's no longer just private equity. We have the largest infrastructure investing business now in Asia. We have a very rapidly growing real estate platform. We just bought a \$2 billion REIT in Japan. Announced that last month. We are entering the private credit business with our first fund in Asia today. All of our growth strategies are active there -- technology growth, health care growth, our impact business. And it's also one of the biggest fundraising markets for us in the world today with Asian clients.

Alison Mass: So I want to talk about China. You know, economists often talk about the rise of China and what it will mean for the global economy. And in your view, where are they ahead of us now? And what are your investment priorities there?

Joe Bae: Sure. I mean, China is an incredibly important market for our platform in Asia. It's probably 25-30% of our business in the region. But I think China as an investment destination has gotten more complicated with the geopolitical issues that we have right now. But

the fundamental reason why you have to be in China are obvious. It will be the biggest economy in the world with the population base they have. There is an enormous Millennial young population in China that's emerging in the middle class.

You know, Asia Pac generally, I think the numbers are 820-plus million Millennials in Asia today, compared to 68 million in the US. So over 12 times as many Millennials. It's just an extraordinary demographic tailwind when you think about services, value-added goods, leisure, health care. All the sectors that we invest in around the world are going to be massive industries in China. So that's really where we're oriented, those fundamental themes.

Alison Mass: So let's turn to the Ukraine. There have been a lot of predictions about the war and its repercussions ending globalization. Do you see the economic isolation of Russia along with supply chain shocks permanently altering the world order? And do you think we're entering an era of deglobalization?

Joe Bae: Yeah, I think globalization has been

decelerating for the past decade actually, right? So it's been losing some steam over the last 5-10 years. A lot of that is to geopolitical. I think the Russia-Ukraine conflict, the biggest implication in the next 3-5 years is really going to be around energy security. Europe is very, very vulnerable and dependent on Russia for natural gas. And we in the United States and in North America are in this privileged position where we are basically energy dependent today. Europe is not in that position. So there's going to be a significant amount of thinking and investment around how do we help Europe become less dependent on Russian oil?

I think it has less to do in terms of the big deglobalization trend. I think that's really more, you know, US-China related, quite frankly. Supply chain security is absolutely critical. So if you have dependency on China as a market to source, you need to have a backup plan today. Supply chain resiliency is definitely a conversation in every board room today. But I don't think, given how integrated the global economy is, that this complete decoupling is even realistic or practical. I think it's really about risk mitigation strategies. You know, identifying those

bottlenecks, those choke points where you may be too overexposed to China and finding other markets to source from.

There is clearly an effort with the administration here in the US to onshore more capacity of critical sectors like the semiconductor industry. I think there will be progress made on that front. But fundamentally, I think it's more important that those critical industries have capacity in countries that are friendly to the US, that are allies with the US. I don't think the vision should be everything comes back necessarily on shore.

Alison Mass: I want to talk about what is going on at your investment committees now and how the volatility in the market and the threat of deglobalization is shaping KKR's investment strategy and risk calculations moving forward.

Joe Bae: So obviously in today's world, one of the biggest unknowns is how do you get inflation to come from 8.5% last month down to a normal rate? What's going to happen to interest rates? What's going to happen to wages, which is massive wage pressure in the United States? So

those are the key risk factors that we are now debating across in much more detail at every investment committee.

I think it leads us to sectors that have more pricing power, that you're not a price taker but a price maker. If you have the ability to pass on inflationary costs, whether those are commodity costs or wage costs, to your end customers, that's a really good thing from a business model standpoint today. And we're trying to avoid industries and companies that don't have that kind of pricing power because you're going to see meaningful margin contraction and probably multiple contraction in the years ahead.

Thematically, we love areas like digital infrastructure. Anything related to digitization is a huge macro theme we're leaning into. We love the single multi-family housing trend and the lack of supply in the US and in certain markets in Europe. There are enormous areas around software that we still think have a lot of room to grow. There are categories of ESG which, again, with the climate push, decarbonization, there's going to be tremendous macro growth. So that's a sector we're learning into. And we're also trying to get more active in life sciences today.

Alison Mass: So you talked a little bit about what you're preparing for. I'd love to get your personal view of the potential for a recession.

Joe Bae: Yeah, I think the risk of recession has clearly gone up. I don't think our house view is that we will definitely be in recession next year or even the year after. I think Europe is probably more exposed just given the pressures they have around energy today and the impact that that will have in terms of consumption and GDP growth. So I'd say Europe is something we're watching very, very carefully right now.

The US fundamentals are actually still pretty strong, but I think the risk is depending on how rapidly the Fed raises interest rates. I think there is an acknowledge that, with all of the stimulus that has happened, the zero interest rate environment, it's driving a lot of this inflationary pressure around the world. So the Fed is definitely going to keep raising rates. And the pace and how that's ultimately digested by the markets is probably going to be one of the key risk factors to recession.

Alison Mass: So let's get back to energy, which you mentioned. There seem to be two schools of thought when it comes to the war's impact on transition to green energy. One school thinks that deglobalization will force countries to abandon net-zero commitments and resort to using convenient sources of fuel. And the other school believes that the spike in oil prices and the desire for national energy security will accelerate the adoption of clean energy. So where do you fall?

Joe Bae: I don't think it's either/or. I think energy security has been elevated as a concern around the world as much as energy transition and decarbonization. And I think what that means is you're going to have to have a very responsible and pragmatic approach to how do we transition to net zero. And a part of that solution will be natural gas, right? Energy demand is growing in the world. You can't not invest in natural gas if you're going to have an orderly transition at reasonable cost to consumers for energy.

There may be a meaningful acceleration in renewables.

Certainly in our infrastructure business, we've invested \$27 billion around those sustainable themes -- solar, wind, etc. And I think that pace is just going to continue as the world moves towards net zero.

Alison Mass: So KKR was a pioneer when it came to embracing and raising the bar on responsible investing in general. If you had used the term ESG 15 years ago, I think most of the investment world would have said, “Like, what is that?” What prompted the firm to incorporate those principles into your investment strategy so early? I think you were one of the first with a sustainability report. And how has that investment strategy evolve over time?

Joe Bae: Our commitment to ESG is something that goes back 20 years. We've had a partnership with the Environmental Defense Fund for the last decade-plus. They've been a great partner. They've worked across over 60 of our portfolio companies around the world, helping to really implement and drive better environmental performance. That could be energy usage. It could be water. It could be waste. Etc.

Our form of governance, at least in private equity, is you take concentrated positions, oftentimes control positions in companies, and you bring different priorities to the table in terms of how you want to increase value, how you want to grow these businesses, and generate returns. ESG is absolutely aligned with that. You know, these are investments that we make that are not only good for the environment, but they actually drive higher margins of profitability. And being responsible owners of companies today is more important than ever, right? Our LPs care about it. Our employees at KKR care about it. Our employees at our portfolio companies care a lot about it. And it's just the right business thing to do fundamentally.

Alison Mass: So shifting from climate action and ESG to the generations that championed that cause, we have a lot of young people who work at Goldman Sachs -- Millennials and Gen Z -- and they have more economic power than any generation that preceded them. They're earning more. Hopefully saving more. And investing earlier and at a higher rate than their parents. And they're poised to be on the receiving end of massive wealth transfer in the tens of trillions of dollars. So can you speak to how Millennials

and Gen Z considerations drive your strategies as you invest around the world?

Joe Bae: Sure. I mean, it's such an important point. I mean, just taking KKR itself as a firm, a little over 70% of our workforce is Millennial or Gen Z. When you think about all the hiring we've done in the last two years where our firm has grown by more than 50% in the last two years, head count, over 80% of those hires were Millennial or Gen Z. So it is a huge part of our workforce and how our people think about investing and consuming and spending. And that informs how we invest.

You know, the biggest impact is obviously around innovation and technology. How technology is changing the face of how consumers interact with services, with goods, etc. Whether that's ecommerce. You know, whether that's buying a car or insurance, an auto loan. Consumers are just behaving very differently today than 5 years ago, 10 years ago, 20 years ago. So our industry needs to understand those trends, those consumer behaviors, and it's the reason why we've launched our growth fund in technology, in health care, and in impact because,

generationally, it's a very different mindset in terms of where they want to spend their time and their money.

It's going to have real implications long term in terms of the private wealth channel. As you say, the tens of trillions of dollars of wealth transferred to this generation, how they want to invest, where they want to invest. Will they be more open at the individual level to alternatives and private equity? We certainly think that's going to be the case.

Alison Mass: So let's talk about something that's very close to your heart. Your work to support the Asian American community. And in response to a rising wave of anti-Asian violence last year, you, along with several other Asian American business leaders, launched TAAF, the Asian American Foundation, the largest-ever philanthropic effort to support the Asian American Pacific community. So how personal is this for you?

Joe Bae: It was very personal. I mean, for me during COVID, the first six months of COVID, I had all four of my kids back. We were out at our summer home for six months together. And that's really when you started seeing

a lot of these articles, things on social media around anti-Asian hate. A lot of this was around the rhetoric in terms of the Wuhan Flu and Kung Flu and all the scapegoating of Asian Americans for COVID in the early days. And it was an incredible time to really have an honest conversation with my kids about why this is happening. But more importantly, to talk about the experience of Asian Americans in this country.

So a big part of what TAAF was focused on trying to do is to really create the infrastructure for the Asian American community to come together, have more voice, and really organize a more of a national effort. Asian Americans don't have the equivalent of the NAACP for the Black community. We do not have the equivalent of the Anti Defamation League for the Jewish community. That needs to be built. And that's really what fundamentally TAAF is trying to do. It's focused obviously on anti-hate and the violence we're seeing today.

In New York City, in 2021, we've seen attacks on Asian Americans grow by over 360% in one year. And we need better engagement with law enforcement. We need a more

productive relationship with law enforcement. We need to have community organizations come together to support victims in a different way. But then there's a much broader agenda around education, Asian American studies in the United States, political participation in the United States. So I view this as a multi-decade type of initiative that hopefully many of you in this room will take to the next level when the current founders move on.

Alison Mass: So as you raised money from financial firms and corporations, you made the case, for instance, when you called Goldman, that we employ a massive number of Asian Americans. But AAPI issues have largely been off the radar for many of these institutions. And can you make sense of why that is?

Joe Bae: Yeah, I mean, the shocking thing, when we launched TAAF, we initially thought let's call a couple of our corporate friends and other philanthropists and see if we can use raise money for TAAF. What we very, very quickly realized -- literally, the first three or four conversations -- is none of these organizations had any real strategic plan to support the Asian American community.

It's not that there's no corporate intent. There's a massive amount of great corporate intent to be good corporate citizens. But again, Asian American issues were not even on the table as something they were talking about. I think there's a couple reasons why.

I think number one, Asian American community itself is not organized. So it's been difficult for us to articulate what the need is. It's 30 different ethnicities, right? It's not one monolithic group. And we're not organized effectively.

The second piece of it is there is this notion of the Model Minority Myth. There are very many Asians at Goldman Sachs, just like there are at KKR. There is this view that Asians are very well represented, they're very, very successful, and they don't need as much help perhaps as other communities. And that's just a fundamentally wrong perception. There's a sliver of Asian Americans who do very, very well. But if you look at New York City, for instance, De Blasio actually had to publish this in one of his reports.

If you look at the elderly in the five boroughs over the age of 65 on a percentage basis-wise, the greatest level of poverty is in the Asian American community.

Alison Mass: Really?

Joe Bae: Because these are Asian Americans who are usually first-generation immigrants. They're not part of a company with a pension plan or a safety net. Many of them are small business owners who, when they retire, there's no safety net for them, right? So literally, more than Blacks, Hispanics, any other racial group in New York City, in the elder population, Asian Americans are at greater risk.

People don't know facts like that. They always assume Asians are doing well, right?

Alison Mass: Yeah.

Joe Bae: And I think that's part of the narrative that we need to change and articulate the need.

Alison Mass: So you recently donated to your alma mater, Harvard, to expand their Asian Studies program. And one of your other objectives, as you mentioned earlier, is to get the public school system to incorporate Asian American history into the curriculum. So what difference do you think that will make with the younger generations who really don't have a sense of what the Asian American experience has been like in this country?

Joe Bae: I think that's one of the fundamental challenges of changing the tide here and perceptions of Asian Americans. It's just not taught. Asian Americans have been in this country for over 200 years, and they have been side by side in many of the biggest struggles that other minority groups have faced.

So I'll give you one example of that. There are obviously incredible events like the Japanese internment during World War II. The China Exclusion Act in the late 1800s, early 1900s where they basically said Chinese are not allowed to be US citizens. There's this notion today, which is precedent, where if you are born in the United States you

are automatically a US citizen, right? That's the law in the United States. The reason it's the law is it was a Chinese person who was born in the US, had left the US to go visit his family in China, and was denied reentry. And he was said, "Because you're Chinese, you are not a US citizen." Right? So that whole legal precedent around if you're born in America you are a US citizen is because of these cases against Chinese immigration.

So Asian American Studies, to me is just making sure Americans, when they learn about what's happened in this country, the big struggles in this country, they understand that Asian Americans are part of the fabric of this country and how we got to where we are today. So at Harvard, what we're trying to do is hire six tenured faculty to teach Asian American Studies, all these things we're talking about, right? And make sure it's ingrained in what kids grow up learning about this country.

So you learn about the Civil Rights movement and you learn about women's suffrage, right? You learn about the gay lesbian rights movement. All incredibly important movements. There's nothing about Asian Americans,

right? And that needs to change.

Alison Mass: So on a personal level, you were one of two Asians in your public school growing up. And how did that shape you as a person? Did you personally face challenges and encounter discrimination throughout your childhood?

Joe Bae: Yeah, I mean, we were literally first generation. I moved here when I was three years old. My parents didn't speak much English when we came over. So we had a lot of assimilation to go through in public school, my two older brothers and myself. So there was absolutely this feeling of being an outsider in this country. Definitely in public school, you know, playground or wherever else, there was a more accepted form of racism and discrimination in those settings.

But it also taught you very important life lessons around resilience, about breaking into certain networks, adaptability in certain environments. And when I think about my job at KKR and some of the different roles I've had to play at the firm, you know, that resilience and adaptability are critical life skills that you learn through

those types of experiences.

Alison Mass: You've been in these leadership roles during a very difficult time over the last two years, both geopolitical, health care, or pandemic. And I'd love your perspectives on how this time has shaped your perspective as a leader. The lessons you've learned over these past two years. And what kind of skills do you think are needed to lead in times like these?

Joe Bae: I think you can't over communicate in times like these. You know, when we were in the middle of COVID lockdown, our normal cadence and normal times would be probably partner calls, partner meetings once a month, globally. Our 100 partners get on the phone together. Obviously management committee gets together more often, etc.

During the first four months of COVID, we were having daily partner calls globally. Daily.

Alison Mass: Wow.

Joe Bae: So we were talking for an hour, hour and a half, two hours every day, not just about the health issues with our people. We were talking about our portfolio companies. We were talking about how do we want to pivot our investment strategies during this dislocation. We very quickly raised a dislocation fund, a brand new fund in the middle of COVID. But that connectivity, that communication was extraordinarily important for us to navigate the complexity of COVID. We really value our culture at KKR. It's an all-in team effort, right? Again, there's no silos in our firm. There's no stand-alone P&Ls in our firm. Everybody's operating together to maximize KKR.

And our success during COVID -- I think we were the most active investor during the last what years -- is really a testament I think to the culture. We monetized our culture in a way that other firms couldn't, by staying connected, being nimble, moving fast. And that's been a really incredible part of the journey the last two years.

Alison Mass: And to bring this full circle, what's your definition of success? And what's been the key to your success?

Joe Bae: Listen, I think it's about, you know, really pushing yourself, setting ambitious goals and targets. Taking risk. We tell all of our people when we hire them, in the investment business, you're going to make mistakes. You're going to make bad deals, make bad investment decisions. You have to lean into that and make sure you learn from those experiences so you're better the next day when you show up at work.

So I think a huge part of what we think about as success is making sure culturally, again, we're creating an environment where people could be their best selves when they show up. They can be thoughtful. They can be collaborative. They can be risk taking. They can be entrepreneurial. And if we get that push down into the organization the right way, there's so much potential.

Alison Mass: Well, Joe, thank you so much for being here. And please join me in thanking Joe for joining us at Talks at GS.

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