

Alison Mass: Welcome to our continuing series of special episodes of Talks@GS where we're going to be speaking with some of the world's greatest investors. My guest today is Tom Lister, who's the co-managing partner of Permira. And, Tom, I'm so thrilled to have you with us to get your investment insights in what is clearly an unprecedented market. So thank you for being here.

Tom Lister: It's nice to be here.

Alison Mass: So can you take us back to the beginning of 2020 and talk a little bit about how you approached investment opportunities early in the pandemic? January in China, March in the US, Europe?

Tom Lister: It was really hard in the first weeks or the first couple of months of this period to put capital to work really for two reasons. The first was that there was a big gap between what investors thought things might be worth and what sellers thought they might be worth. So even though you might have wanted to transact in that period, it was really hard to transact.

The second thing is that that was actually in a way good for us because it gave us a period of time to go work on our portfolio, and we did that. And really by the end of April, we were confident that our portfolio was in very good shape. That to the extent there were issues, we had taken steps to alleviate them. And we felt much more comfortable getting on the front foot.

Alison Mass: So where are you focused now? And what do you think are the long-term implications for investing post COVID?

Tom Lister: The three places we're most interested today and the three places we have invested, the first obviously is health care. And we've been able to find interesting things to do in that sector. And we believe over time that will continue to be a fertile ground. An expensive ground but a fertile ground.

Second is technology. We look at our cloud-based companies and we see how much transition has taken place in the last six months around SAS models. And it's been both great for our existing portfolio but also for companies who were in the midst of trying to prove out their business model and how you can now point to six months worth of actual evidence, and you feel much more comfortable about backing those than you would have.

And then lastly, consumer marketplaces. Much of our consumer business today, our consumer sector is focused on marketplaces as opposed to brands or physical situations. So, for example, we own a marketplace that delivers all of the wedding services around the world. Now, the last six months have meant, you know, all but a cessation of that opportunity on the one hand. On the other hand, we all know that that will come back, and those marketplaces have had a chance to make tons of progress in their underlying infrastructure in this period. And we're really optimistic about what that will mean for the future. So those are really the three places we've spent the most time.

Alison Mass: So let's shift now to your career as an investor and also talk about creating the right investment culture. So if you think back over your 30-year investing career, what would you say is the greatest investing lesson that you learned from a particular deal, whether it's a deal that went well or a deal that ended up not working out so well?

Tom Lister: Yeah, so I think really two things. One is, you know, and we think about this all the time, we think it's really important in this industry to sell ahead of the top of the performance. So monetizing at the absolute peak leaves lots of ill will on both sides. And it's totally fine in our industry to monetize something you've done a really good job with and leave opportunity and return and reward for the next owner, whether that be public shareholders or a corporation or another private equity owner. And it never bothers me when I see somebody and they say, "You know, we bought something from you, and it's done incredibly well."

The second thing is that -- and we really used this over the last six months to great effect. Kurt and I implored everybody in the business to live up to all the commitments that we had made collectively as a group prior to the pandemic as long as those were commitments that were -- that people had complied with. And we hoped and expected that on the other side that would be the case. It's really easy if you're a young investment professional to say, "Oh, gosh, I committed to this or I agreed to do this and now things have changed, and so I'd like to have a redo or a second at bat." And it's worked out really well. It's a lesson that really was an important part of this industry, and we try to make sure that it's the case.

And then the last one is, you know, we always believe it's incredibly important to over spec the talent and the management

capabilities we put in our portfolio companies.

Alison Mass: So Tom, what do you think has been the key to your success as an investor?

Tom Lister: So a couple things. First of all, a lot of it has to do with good fortune and being in the right place at the right time. So if you think back at some of the -- and I think anyone who's been doing this for a long time would say that they think back to the investments that turned out really well, and there was a moment where they either won by a little bit or they made a decision that seemed really complicated or they took a liability the last night that they didn't think they were going to take. And in hindsight, all of that agony and all of that worrying didn't add up to very much. And every one of the investments that I was involved in over my career, there was always that moment. And so a little bit of it is good fortune and the confidence to take sort of that last piece because all good investments are hard to decide upon at the end.

The second thing is having really good management teams. So most of the things that have worked out really well, it either was the case that the management team that we inherited was better than what we thought when we were doing the work, and/or we were able to attract people to the company who made transformational changes or made significant improvements in what we were doing.

And a third thing -- and, you know, I've been doing this a long time. I mean, I learned a lot. I started at a firm back in the early '90s that had ten people. And it was a place where everybody worked on everything, and you learned how to do all parts of a transaction. So you were expected to be able to do the financing, the contract, do all your own computer model, and appear and justify what you wanted to do. And I think that was incredibly important in terms of a development thing. And others of us who were there and are still around all benefited from that.

Alison Mass: So what do you think differentiates a really good investor from an average investor? And how do you assess your younger investment professionals at Permira?

Tom Lister: So if you look at our most successful investors and those who've had the best track record, they typically are resilient. They have a lot of resilience. So when they come with an idea and they get pushback either from another partner

or from the investment committee, they don't disappear. They don't climb back into their shell and give up, but they keep pushing. They come back with a different alternative to the problem that they face.

Secondly, they all come at the problem with a skeptical mind. But a skeptical mind with a bias towards optimism. So they go out and they cross-check what they've been told, they cross-check what they've learned not by asking the management team, "Is this true or is this not true?" They actually go back and they verify it on a primary basis. They ask open-ended questions, not closed questions. So they don't go to a management meeting and say, "Please tell me what I want you to tell me or what I expect to hear." They ask open-ended questions with an optimistic bias.

The third thing is that they're all entrepreneurial. They are motivated. They really want to be successful, and they want to be successful because at the end of the day they see great reward in creating better and more valuable companies.

And lastly, they have empathy. They don't typically start with empathy. So the four- or five-year principal at our firm does not specialize in empathy. But over time, they develop incredible empathy because if they don't they never get to a place where a management team or another private equity firm or a corporation wants to partner with them. And that, you know, becomes something that they develop. And at the end of that, those are the people that are the best.

Alison Mass: What would you say is the biggest challenge that Permira faces today?

Tom Lister: We operate in a, you know, unrealistically low interest rate environment and an unrealistically long-term high multiple environment. And how you then find great things in that environment when there are five other people looking for the kinds of things that you are looking for, that's the really hard part. It's not once you -- if you get your hands on a terrific asset, even if you pay -- and I don't ever like the word "overpay," but if you pay 10% more than what you thought you should have paid at the time, you can always solve that problem. That's a soluble problem.

But the finding the great jewels and then doing something with them is really, you know, our biggest challenge.

Alison Mass: So will the S&P 500 be higher or lower a year from now in your view?

Tom Lister: Higher.

Alison Mass: Okay. I like the optimism.

Tom Lister: Higher.

Alison Mass: Will the China-US relationship be closer or further apart a year from now?

Tom Lister: Sadly, further apart. And I think that -- I say that, you know, sadly because I don't think that necessarily has to be the case. And there are lots of really important economic reasons why that shouldn't be the case. But I think that there exists today a set of short-term kind of not well thought out, mostly politically motivated on both sides of the aisle reasons why that doesn't really hurt. And I'm not sure that's a good long-term place to be.

Alison Mass: Okay, so finally, what advice would you have for someone starting out in investing today that you wish someone had given you when you first started out in your career?

Tom Lister: Well, I think that one piece of advice that everybody who starts in the business, you know, at some period of time after, you know, undergraduate and some graduate education is they always assume that an important part of the answer comes out of the computer, and that somehow the computer model answers the problem. And often the computer model or the mathematical part of the answer is an important part of it, but it's by no means the only part. And in some cases, it's not the last thing you need to know to make the decision. And I find people today, they rely like a crutch on the 10-page computer model. They say, "Yes, but it says this or that." And you say, "Yes, but that's all based on a set of assumptions, and it's not necessarily the case that all those assumptions will turn out to be the case."

Alison Mass: All right, Tom, well, thank you so much for being here. I really appreciate you sharing all of your insights with us. And stay healthy and stay safe.

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