

JAKE SIEWERT

This is Exchanges at Goldman Sachs, where we discuss developments currently shaping markets, industries and the global economy. I'm Jake Siewert, global head of Corporate Communications here at the firm.

Today, we'll be talking with John Goldstein about sustainable finance and a big announcement that Goldman Sachs has just made in that space. But, before that, we're going to try out something new and different. We're going to give you a quick update on the markets from one of our trading-floor experts.

We're joined today by Amelia Garnett from the Goldman Sachs Securities Division, who's

going to be telling us about five numbers she's watching in the markets this week.

Amelia, welcome.

AMELIA GARNETT

Thank you.

JAKE SIEWERT

So before we jump in, give a quick overview of what you focus on and who your main clients are.

AMELIA GARNETT

Sure. So I sit in the Cross Asset Sales Group in New York, and I predominantly cover equity and credit hedge funds for macro products. So I'm mainly focused on currency markets and rates.

JAKE SIEWERT

Okay. So, Amelia, what's the big number

in markets that you've been looking at?

AMELIA GARNETT

Ten-and-a-half, which is the number of trading sessions we have left this year.

There's not much hard data left to be released, and so I'm going to focus on something slightly more structural, which is liquidity into year end.

So, locally, markets have been very focused on the regulatory requirements for banks to keep dollars on their balance sheet over year end, and that has been affecting funding markets. So we've seen cross currency basis widen out, and we've seen clients ask questions and raise some concerns. That's been compounded by the fact that some competitors and market commentators

have been flagging the risks into year end. We would actually argue that those risks are overstated and the banks have been particularly proactive, in fact, in managing liquidity into this event.

And, as we saw from Fed Chair Powell's conference last week, he is monitoring these risks, and he remains ready to act, but they're not concerned right now. So I think this is something that is less of a risk, and, from my perspective and looking at the activity from my client franchise, our clients have been very proactive as well at rolling their FX forward ahead of year end to avoid having to transact in illiquid markets.

JAKE SIEWERT

So what number do you feel has been getting a lot of attention, but doesn't really tell us what we need to know?

AMELIA GARNETT

The odds of a Senator Warren Democratic nomination, which is, frankly, a moving target at the moment. And so why do we care? Market participants agree that the U.S. election is the big event for 2020. And when we saw Senator Warren's support increase a few months ago, we saw a rapid flurry of interest from our client base to hedge the more progressive agenda. So, specifically, we saw interest to own options in the March and November expire rate, so covering the primaries and the election itself, to protect against S&P

weakness and also to protect against sectors and specific stocks that would really underperform in an environment of this progressive reform.

Elsewhere, we also saw clients positioned for a weaker dollar on the view that the Fed might have to cut interest rates, which would lead to dollar underperformance, particularly against the yen, which is viewed as a safe-haven asset. And, elsewhere, we've seen interest to buy calls on natural gas in the face of proposed energy reform. So, ultimately, we need to know who the Democratic candidate is, and the quicker we know that, the better it will be for the investing environment.

JAKE SIEWERT

So has there been a number that's moved a lot or maybe not all that's really caught your eye?

AMELIA GARNETT

20 percent, which is actually Goldman Research's assigned probability for a recession in the next 12 months. Now, if you compare that to the 33 percent, which the broader market assigns, we are definitely on the lower end, and we offer three reasons.

The first is we think that the private sector is in a very strong financial condition, so households and businesses are in a strong position. We also believe that U.S. consumers are strong. You know, we're seeing job growth. We're

seeing high consumer confidence, and we're seeing rising incomes. And the risks are dissipating. I mean, central banks have proven that they're going to be reactive in cutting interest rates, and, you know, hopefully, the Brexit fears and the China fears are going away.

That said, the economy is in its eleventh year of economic expansion. That's the longest in history, and so it naturally causes clients to consider the downside risks, which has a big bearing on risk appetite and willingness to deploy fresh capital. So, in summary, we've continued to see clients add to risk, but they're taking advantage of low volatility to put in hedges when necessary.

JAKE SIEWERT

What number do you think about for the future?

AMELIA GARNETT

Gini coefficients globally, which provide long-term indicators of inequality. And why I think what's important is we've seen a rise in support for the political extremes all around the globe in the last few years. And, clearly, this is a complicated issue, but it's driven, in part, by anger over the multiyear rise in inequality, both social and economic, and has been accentuated by technology and social media that have really made this inequality come to life for many people. And so I really expect this to remain a big

focus for our clients and investors, both economically and socially.

JAKE SIEWERT

Right. So I used to work for a boss who loved the Gini coefficient. It was his favorite metric. Let's wrap up with something non-financial. What's the number on your mind as we enter this holiday season?

AMELIA GARNETT

3,459, which is the miles in between my office in New York and my home in London. I'm headed there for the holiday season, and I actually used to work in the London and Sydney offices with Goldman before New York. And so it will be great to go back.

JAKE SIEWERT

Thank you very much, Amelia, and have a great holiday.

Now, on to the sustainable finance portion of the episode. So Goldman Sachs just made a big announcement on the firm's sustainable goals over the next 10 years.

To talk about that and respond to some skeptics in the space, we're joined by John Goldstein, head of Goldman Sachs Sustainable Finance Group, which is responsible for working across the firm to deepen our knowledge and grow our capabilities in relation to inclusive growth and climate transition.

John, welcome to the program.

JOHN GOLDSTEIN

Hey, thanks for having me back, Jake.

JAKE SIEWERT

So, before we begin, why don't you explain a little bit of what we just announced and how it came to be.

JOHN GOLDSTEIN

The announcement had two core elements: The first is that we're making a commitment to invest or finance \$750 billion of capital over the next 10 years across the two broad themes we're seeing unfolding in the economy and nine specific themes within those.

The two broad themes are climate transition and inclusive growth. Under climate transition, we see things that you'd expect to see, like clean energy, and things that you might not expect as much, around things like waste and

materials, ecosystem services. Inclusive growth looks at frankly how do we have growth that works better for more people: things like accessible, affordable education, accessible and affordable healthcare, and investing in our communities.

JAKE SIEWERT

So, that's a financial target and a group of investment financing areas. How is it going to be built into Goldman's business?

JOHN GOLDSTEIN

I think you're hitting on one of the things that's really important. I think the \$750 billion may get a lot of attention as a headline number, but I think arguably this may be more significant over time, which is seeing these as two core secular trends that will affect the economy, our clients

and our business. That means we need to invest in the capabilities to be as strong, excellent and capable around these as we would any other central topic, which could be technology, interest rates—any other thing of that kind of significance. And so, the other commitment is that we're working to integrate expertise, capability and delivery of that across our products and services and across the divisions of the business so any client can knock on our door and get the same expertise, insight and help on these issues that they could expect on any of the other central issues that are top of mind for them.

JAKE SIEWERT

So, let's cut to the chase, John. A lot of people have talked about sustainable finance for a long time. It's not a new

phrase. What's different about today's announcement that Goldman just made?

JOHN GOLDSTEIN

You know, I think there are three main things that make this a little different because to your point, there are announcements, numbers and targets left, right and center. My newsfeed is full of them. And so, as you know here, we don't like to do things unless we believe in them, they make sense and they're additive. And so, there are three things that make this, meet those criteria.

Number one, where this is coming from:

This is grounded, frankly, not on a commitment to something outside of us.

This is grounded in a core view of where the world is going, a thesis, a

research-driven view—almost a market call— that fundamentally these

questions of climate transition and inclusive growth are going to be central, secular themes for the economy for our clients and for ourselves.

This is where the world is going. We sit at the center of markets. We see it, but we need to be ahead of that, we need to lean into that with the full muscle of our firm.

This is not a peripheral market, this is not off to the side, this is fundamentally central. That's number one—grounded in this core research-driven piece is where the world is going.

Two: We've had environmental targets; this is not just environmental target, right? Back in 2005 when we first really talked about the scientific consensus on climate change, we had our first environmental target. There are lots

of those targets out there. As you said at the beginning, this is actually about these twin themes around inclusive growth and climate transition. It's holistic across nine core growth themes we can talk a little bit more about.

But I think its form is a little bit different in those nine growth themes. This, frankly, is not focused on an external objective. It's not the UNSDGs, it's not one of the frameworks that's out there in the broad world, this is based on our own research over decades of working with our colleagues. And so, that second point of it's not siloed, it's holistic across these set of research-driven themes.

The third thing—and look, I think people are going to probably comment on the size, \$750 billion; it's a big number, it's

probably the biggest target out there—but I would argue the third thing is arguably the most important and maybe the least noticed, but I think over time it's really going to pay off. The focus is not on the \$750 billion, the focus is on being excellent at this, having the expertise, the capabilities in delivering to clients across the firm, across our divisions, across our products and services to truly have the excellence in helping clients navigate this, and navigating with their own capital. The focus is on having excellence in these core themes. The \$750 billion will almost logically follow from that, right? If we're right about our view of where the world is going and we execute well on that desire to be best-in-class at this, the \$750 billion,

you know, it's not chunk change, so I don't want to make it seem like an afterthought, but really, at the end of the day, that will be a result of executing well against this opportunity, not really an end unto itself.

JAKE SIEWERT

So, why does it make sense to do this right now? Obviously, you said Goldman had environmental targets in the past, and we've met those and raised them. Why does it make sense to broaden the scope of our ambition and aim higher?

JOHN GOLDSTEIN

We're seeing two things and, talking to senior leaders around the firm, what's emerged is the urgency of some of these issues is at a fundamentally different place than it's been. Whether it's physical climate risk or

what we're seeing in terms of 80 percent more extreme precipitation days than we had two decades ago.

I live in Northern California and whether it's the power outages there and or fact that half my neighbors can't get property and casualty insurance, there's sort of a growing urgency around that, as well as social issues we see percolating up around the world. So, it's very top-of-mind, it's very present, the urgency of these issues. That alone, frankly, would be important, but arguably not enough for what we're looking at doing, which is leaning our full muscle into these issues.

What's also changed is the business case is fundamentally better than it's ever been, right? If you look at the cost of renewables relative to other types of

power, it's fundamentally different. If you look at the economics of serving unserved markets, or trying to really focus not just on providing better healthcare, but better health, right? If you look at all of these issues, fundamentally it's not just the urgency, but it's the opportunity. The business case is better than ever it's been.

It's coming from a wide variety of angles. People talk a lot about Millennials wanting to invest differently. That's true. I think on the last podcast I jokingly said, 127 percent of Millennials want to invest with an ESG lens. That may have risen to 134 percent at this point. But what people are missing are other angles with this.

Employees: I was talking to the CFO of a large company the other day and they

said, look, my number one, two and three ESG issues are if I can't show a young, talented, mobile workforce that could pick from a litter of greater employment opportunities, if I can't show them what we do is important to the world, and we do it in a values-oriented way, they're not going to come work here, right? Employees are engaging with their companies in a fundamentally different way around this.

Policymakers: look at the way they're getting in the game. Look at the European sustainable finance taxonomy. Look at China. From a policy perspective, they don't want our plastic waste. As we look at ocean plastic, China's imports of plastic waste have declined by over 95 percent in three years. You have governments getting in

the game.

You have asset owners. You have asset owners coming together individually and collectively in groups, like the Climate Action 100+, really saying, look, we see the world moving in a direction and we want to use our power, influence our dollars in a different way.

Companies themselves accounted for over a quarter of the new renewable power generation last year. Companies are getting in the game in a different way, not just themselves, but even up and down their supply chain, working on sustainability goals, engagement goals and diversity goals.

And so, I think the time is fundamentally different because urgency is real, and visible and really in our faces in a fundamentally different way than it has

been. But, frankly, without the fact the business case is now there, I don't think we'd be able to make the same kind of commitment.

JAKE SIEWERT

So, sometimes you talk about these trends in the abstract, but it always is helpful to focus on the personal. Talk a little bit about the way you see it through your own lens. Your transition here at the firm has sort of reflected some of these changes, so talk about what you originally came here to do and what you're doing today.

JOHN GOLDSTEIN

(Laughs) Yeah. I think I'm an unexpected and unlikely case study in all of this, right? I sometimes call myself "The Forest Gump of impact investing".

Back in 2007, I co-founded Imprint Capital

along with Taylor Jordan. We didn't even know we were starting a business. We knew we had a small set of clients that want to take all these ideas—and this field has always had a lot of ideas, it hasn't always had execution—and our focus was not on aspiration, it was on execution. Let's work with clients, let's see if we can roll up our sleeves and implement these ideas. How do I align portfolios with the way the world is going and do it in a way that pass muster from a financial perspective, but also from an impact perspective?

Our little two-person company slowly grew to where we were a little 15-person company. We manage about \$550 million in assets. We'd worked with a lot of large US foundations. So, our little company focused on really just understanding this

emerging world, started getting hired by financial institutions. I started spending a lot more time in New York with people that dressed a little better than I did. And, you know, Goldman Sachs got to know us through some work. We thought they were going to become another client, they were very smart, they asked really good questions.

We were excited, but they came back—instead of sending us our signed contract—with a rather surprising question of: We have this wacky idea and wondered what you might think about it, but what if we were to buy you?

So, I was having my first cup of morning coffee, I had just gotten unpacked from a week living out of the back of a camper van with my family on the Lost Coast of California and instead of doing a coffee

spit-take, I just said, I'd love to hear more about your thinking.

JAKE SIEWERT

(Laughs)

JOHN GOLDSTEIN

And the answer, in some ways, is emblematic of where we are now. The answer was: 'This is now important for our clients, which means we need to be excellent.' And at that point they said, 'We're fine. We have lots of good pockets of work, but if we want to get from fine to excellent, we've really got to, you know, ramp up our efforts, we need to invest in this in a very muscular, robust way.'

Then as things grew, what we found is, you know, this organization is very nimble and very dynamic and so we started working really on three things: Number

one, how do our core investors get better at doing this as part of their day jobs?

ESG is not for clients who care about ESG. ESG -- Environmental, Social and Governances—are for clients who care about risk-adjusted returns and that's all clients, right?

So, how do we weave that into our core products? How do we partner with clients that want something a little more, that want to lean into this from a research perspective, to figure out not just what today's practice is, but what's the next practice. That's really our kind of shared R&D agenda. How do we talk to clients differently—not just show up with a product or a pitch, but to say, 'how can we help you?' We can talk across asset classes, public to private, equity to debt, impact to ESG. We work with local

insurers, sovereign wealth funds, pension funds, foundations, family offices. We both work with our own investors and we allocate to other investors who don't carry Goldman Sachs business cards, to be able to have that perspective and say, 'how can we help?'

That worked pretty well—both in a sign of that being a model and where the world is going. At the end of 2015, the year of the acquisition, we had \$3 billion under management. In 2016, it was a little over \$6 billion; 2017, a little over 11; 2018, a little over 17; and now it's about \$55 billion in dedicated ESG and impact assets. So, continued growth and a sign that we were sort of on to something in terms of that model, right?

People say, do you have a separate group doing this or do you integrate it,

and we said, 'yes.' We called it a "both/and" model, which is if you tell an existing, talented staff to add something to their day job, that's unrealistic. On the other hand, if you have it totally divorced from the business, that's irrelevant, so how do you have the extra oomph of resources focused on specialization? But the goal is to draw it from and weave it into the business, not to separate it. So, that model worked well.

So, at the same time, these questions were coming up all over. Our largest clients around the world were constantly bringing this up as a top-of-mind issue, not just for investment management, but for securities, for investment banking, it's coming up in investments our merchant bank was making. And the question is what to do about it, right? And

in some ways at the end of the day, the goal is: let's focus on content, knowledge and expertise. Let's not focus on products and let's not focus on announcements, let's not focus on marketing, let's really focus on what we need to do. Which is really three things, and you mentioned this at the beginning; number one, let's have the expertise in knowledge, and if it exists somewhere in these metaphorical four walls, let's find it and put it together. If it doesn't, let's go get it, right? Let's have expertise on the things that matter.

Number two, let's have capabilities to do something with that knowledge. It's all well and good to know something, but we need to be able to do something. Number

three, let's deliver that to clients in a coherent, cohesive way. And if we do that, you know, hopefully that will create a cycle that perpetuates itself. If you do good work, you'll become known for it, which means you earn the right to do more good work.

But I think this experience of having a little 15-person company, running a large growing unit within Goldman Sachs and now really getting to sort of drink from the firehose—which is that Goldman Sachs sits at the center of markets and is looking out across corporate executives, asset owners, asset managers, policymakers—that view is both inspiring in terms of the engagement and the momentum around this, but it's also daunting. I mean, there's a lot of work to do, there's a lot of wood to chop.

JAKE SIEWERT

So, one knock, and it's not insignificant on sustainable finances, is that it really is just giving a name to something that's going to happen anyway and you're trying to get some credit for something that you already do in your business. If this makes business sense, just do it and don't take credit for it. How do you answer that criticism that we're not adding anything here?

JOHN GOLDSTEIN

We spent a lot of time thinking about this. We have a core of clients that are passionate about these issues and are asking a lot of questions that helps give us a real perspective on how to answer it with real authenticity and depth. First of all, it's not bad if it's good business, right? At the end of the day,

this isn't going to go very far very fast if it's not good business, if the business case doesn't work out.

However, what do we bring to bear? What we bring to bear is the combination of a couple things; that view that this is where the world is going, which means we can justify leaning into this. I like to say, this work is all about getting the right degree of lean. If you stand straight up and down and just execute what's in front of you, you're not going to be doing anything interesting, you're not going to generate comparative advantage, you're not going to be particularly helpful to the clients or to the world, right?

If you lean too far forward with enthusiasm, you're going to make mistakes, fall down and you're going to

create the next cautionary tale, right? So, getting that right degree of lean.

Where can we simultaneously do something that's good business for our clients and for ourselves, but make a difference? And I'd say there are really kind of four main areas where this shows up and it's what do we bring to the table. Number one, sometimes it's innovation, right? Sometimes it's not just executing a transaction that's out there, what's the transaction of tomorrow? So, this SDG-linked bond we did with the Italian utility, Enel, is a really great example of that—which is green bonds have been a good, growing market. It's good, it has some complexity of issuance. You have to cordon off the proceeds and it's a little more tied to inputs in terms of money going in as

opposed to outputs, the results.

So, our team worked with Enel and others to really come up with what is a more aligned, accountable structure that helps them accomplish what they really want to accomplish, which is to raise capital directly aligned with their business goals of transitioning the fundamental core of their business toward renewables. And so, the way the security works is general corporate use of proceeds, easy to issue, easy to issue at scale. It's affordable capital to finance their business, but it's accountable, it has teeth—which is if they don't reach their goal of 55 percent renewable power by the end of 2021, their interest rate ratchets up by a quarter of a percent. And so, that ability to go out to the market, raise billions of dollars of capital, get a

little bit of a price break from the market because seeing that target, seeing that objective, but having that accountability on the back end. Because one of the big issues here is this isn't just about investing in these nine growing themes, this is about transitioning an entire economy. That transition needs to be banked and it needs the innovation and creativity the bankers could bring to it.

So, one thing we can bring is that's it's a good investment: It's good for the company, it's good for investors. So, back to does it pencil? It absolutely pencils.

What do we bring to the table? Ingenuity and sweat. I think the second thing there is foresight, seeing something just a little bit before it's there. Our merchant bank saw a tremendously growing opportunity

in solar powered India and they invested in when they had zero megawatts of power in the ground.

JAKE SIEWERT

Just an idea.

JOHN GOLDSTEIN

Just an idea. Now they have over 6 gigawatts of power. They're the largest solar developer in India and have raised over a billion and a half dollars. That ability to sort of see where this is going, see the direction of travel and invest early, but frankly with some real heft and real scale, I think that's number two. Number three, as I like to call it, is just sweat. This ability to be a little more creative and put some work into putting the building blocks together.

So, a merchant bank worked with a

company called Northvolt to finance a gigafactory in Europe. Ultimately, to bring down the cost of electric vehicles, ultimately that comes down to batteries, and batteries need scale. We have a chicken/egg problem, right? Until costs are lower and I have the volume of demand, how can I build them at the scale that makes it all work? And so, we worked with Volkswagen and others to figure out: Is there someone that's going to buy these batteries? Is there someone who is going to make them? It suddenly takes something and makes it financeable and it's something financeable that needs to be financed at scale.

And I think this gets back to the last role. There are some areas in impact where

small is beautiful. We need nimbleness, innovation and varied sorts of small efforts and there's a lot of wonderful work going out there that's going to continue to go on. One of the things we think about is ,where does our scale not just matter, but where is it required, in that type of transaction? We need scale to get there. The same thing in middle market renewable power: Corporations in the US want to get on-site renewable power; they want highly flexible energy resources; but they want someone that has some scale and heft that's going to be around for a while.

And so, we went, saw a thesis, saw an opportunity and built about a 30-person team, about a \$2-billion balance sheet and in less than three years have become one of the, if

not the largest owner of distributed solar assets in the US. That's a market where people need scale. So, that question of 'If it's good business, what do you bring to the table?' is a very fair one and a good one and frankly one that doesn't get asked enough. And so, we spent a lot of time thinking about where are we bringing something to the table, and frankly that also is an advantage. How do we get interesting transactions that not everybody may have seen until you put in the sweat, you put in the work.

JAKE SIEWERT

So, we obviously here at Goldman have clients that aren't in these nine themes, as broad as they are, that you outlined, and some of them may seem to be pulling in a different direction, depending on

the theme. What about those kinds of legacy clients, as it were?

JOHN GOLDSTEIN

We spent a lot of time since the launch of SFG talking to clients across a wide variety of sectors, and it's been interesting, seeing who wants to talk to us. And I think, frankly, the corporate clients most interested in getting our guidance, our help and our advice are from a lot of those legacy sectors because this is question of transition. This isn't just about the pure plays creating new, innovative solutions—those are unbelievably important and we do a lot of that—but this is about broad bases of the economy, driving to really important goals in terms of climate transition and inclusive growth. And I think that's an area where we're really going to have to earn our

keep: Helping those companies that have a legacy business have a business model.

These businesses are getting these same questions, they're getting pressures from shareholders, from

customers, from employees, and from stakeholders. What they want is: They

want advice, they want help, they want people to help them navigate that

transition. For example: Rapid growth of renewable power creates opportunities in

the renewable power space, it creates opportunities to save money for some

companies and it creates risks for some business models, right?

This idea of all of these drivers: they're opportunities for some people, they're risks for others, and efficiency gains for others. Leveraging these as tools are

important to all of our clients and I think that's one of the things that often gets missed. People think about this as a segmented little field. It's just off here in the corner. These are broad, large chunks of our economy that are fundamentally changing in the decades ahead and, once again, those changes need a banker, they need an investor, they need an advisor.

JAKE SIEWERT

I couldn't agree more. I saw the chairman of a big, traditional oil company in Europe and they were 100 percent focused on these transitional issues. What about data? One of the issues for this world has been that the early metrics and definitions weren't that robust, they were very bespoke, and they changed depending on where you were and what they look like. It's a little soft, sometimes the measures.

How is that evolving and how is that going to improve so that we can really see the accountability and delivering on some of the promises that have been made?

JOHN GOLDSTEIN

If I knew more about hockey, I would probably say we're in the middle of the second period of a three-period game.

So, early on, this was a topic that was of interest, but frankly, people didn't really have to address it, right? It seemed peripheral, sort of ESG: what are you doing, how do I measure it,

how does my portfolio look, how has my company performed? That time is over.

Everyone needs an ESG story and an ESG answer. And I think that has increasingly become apparent.

However, what's happened in some cases is people have really focused on having

an answer versus solving for the real investment question. The investment question is how do I navigate a world that's changing, whether I'm a corporate leader, I'm an asset owner or an asset manager, that's the real question. And as with any investment question, it's hard. It takes work, it takes scrutiny, it takes perception, it takes insight, it takes wisdom.

However, I think an enthusiasm to solve for, frankly, the labeling question has almost resulted in a little bit of a potential cul-de-sac here, where it's a lot of work put into how do I put a stamp on something that says it's ESG? And I think you mentioned some of the issues, this is well-studied, I think sometimes these are a little overly dependent on formalisms, around policies and disclosures versus

performance.

And there is a proliferation. I mean, when I talk to people across the spectrum, nobody is happy with the current state of affairs, which is companies feel like they're beset by many people on all sides with

more requests for more things that arguably don't matter a lot. Investors are overwhelmed with a whole lot of noise and not a lot of signal and don't know quite what to do with it.

Here's the question; how do we get to a world that I think would be better for everyone, a world where we have better data on fewer things that matter more, right? I think everyone would agree that's a better place to be. The question is how do

we get there, and I think this is something we've been taking an active focus in and really pushing on this where we can. We were the first US bank to report using SASB, Sustainability Accounting Standards Board. That's really SASB's mission, which is: How do we figure out what's financially material, for all companies, sector by sector, subsector by subsector, and try to drive recognition of what those things are and coherent reporting around those things.

We really push for better disclosure on fewer things that matter more. Our GS-sustainable-research colleagues have done a great job of really trying to hone in on what are the things that matter for their sectors. It's something we see where the world is going and we're trying to help it get

there because at the end of the day, capital markets work better with good data. I think proliferation of more data is not necessarily better. What we need is better data on fewer things that matter more, and I think that helps overcome these issues, where if we solve for the investment question, arming good investors with better data who may make different choices, they can have transparency and a common framework from which to work. I think at the end of the day that makes sense.

I think one of the kind of cul-de-sac choices that's been made is when you solve for the label, sometimes that becomes the answer. The metaphor we use is, if you were doing due diligence on a fixed income and you asked how they decide what securities to buy and they

said, 'I read a rating-industry report,' you'd say, 'And ...' Right? It's great to use external inputs, but those are inputs, those are not answers. And I think the same thing is true here, which is it's great to buy external data, other reports, other research projects, but at the end of the day if this is important, if this is material, if this is part of how you are a good steward of assets, you need to have your own story to tell in a fact-based way and I think just saying, 'Oh, I just relied on someone else' is increasingly not going to be a sufficient answer.

JAKE SIEWERT

Another question that comes up a lot around this field is that by screening off certain areas or by limiting your investments to nine objectives, or fields or areas, that you're somehow limiting the

universal potential investments and that you're leaving some upside for the investor. So, by limiting or focusing their investments, is there some chance that you're shortchanging your investors?

JOHN GOLDSTEIN

So, I think two main things. Number one, you know, I would be curious to find the investor who looks at every security on the face of the planet. You've got to focus somewhere, right?

You have to make choices, arguably where you can build a research edge, an inside edge. You've got to pick somewhere you're going to focus, and where you think your focus is going to bear fruit, right? So I think there's a little bit of a myth of the people who seamlessly choose from every potential security every single moment in time. I'm

not sure I quite found that person or maybe that computer.

However, I think the other big thing here—and it dovetails to a deeper issue—is historically, limiting the universe was kind of all there was in this space, right? Early efforts like faith-based negative screening, socially responsible investing, the idea of what not to own has become so ingrained in people's heads of what this is. I remember a colleague and I were being interviewed by a journalist once and they said, 'I just don't understand, with ESG, how can you expect an investor to perform with one hand tied behind their back?' And my colleague, she said, 'Actually, we'd like to think of it as having a third hand.'

For us, finding big, attractive growth

sectors, other sources of insight into risk that's going to affect almost all companies, ways to be more efficient—that makes sense to us. And I think there's a little bit of an old way of thinking, of 'take a universe, take a hatchet, remove some names and just get back to your job.' That's not what this really is. I like to say I'm in the cognitive bias business. And what I mean by that is, people are too prone to love this or too prone to hate it, right? Enthusiasts think this is important, it's the greatest thing since sliced, organic, whole wheat, artisanal bread and it's like, you know, sprinkle it on top of anything and it will drive alpha, right, in outperformance. Others think that you are irreducibly dooming yourself to failure and I think a lot of people persist in really frankly those

beliefs. Those are not research-held views or experienced-held views, those are really beliefs in almost philosophy, right?

JAKE SIEWERT

Mm-hm.

JOHN GOLDSTEIN

When you get to the investing question, you get past that. I think we spend a lot of time telling people, we understand there may have been hype, enthusiasm, good news, bad news in the past.

Just frankly we'll acknowledge that, but let's move on. Let's look at the actual investment merits of this question and when you get into it, what I invariably find, I don't think I found a single investor yet we've worked with that the more we talk about this, it doesn't have one little moment of, oh, I didn't know that was

ESG.

So, we were talking to a manager that said, we don't do any ESG. I said, well, what do you do? And they said, you know, the largest area of active risk was investing in middle market European industrial companies because what they found is that a lot of them had outdated manufacturing and a little bit of capex to modernize their manufacturing could make it much more efficient, saves energy, saves water, less waste. And it turns out if they marketed those efficiency traits in small business and consumer markets in Northern Europe, they could command a small price premium. So, they got a double whammy benefit to their margins. And I started to say that in our world you might

call that greening
manufacturing companies. And they said,
well, we don't.

There is this hangover of thinking, this is
what the well-intentioned people trying to
learn Excel are asking me to do, is not a
real investment discipline. I'm sort of
undoing that
cognitive bias. People often realize
they're doing a lot more of it. Then what
usually follows -- oh, but that's just smart
investing. And eventually and a lot of
conversation, I say, you're not allowed to
say
anything that smart investing doesn't
count, right? You can't define the
tautology against me.

JAKE SIEWERT

So, you talk to a lot of smart investors all

over the world, in Europe, Asia, the US, elsewhere. What's one big question or is there one big question that you're getting from those investors about this space?

JOHN GOLDSTEIN

I think in some ways, it all comes down to forms of really one question; what do I do, right? Because I think awareness is high, interest is high, appreciation for the potential importance is high, but I think it can be a little overwhelming and a little paralyzing, right? Think about climate risk. You know, between physical change, policy change, market change, there would be significant impacts across a wide variety of assets in the decades to come.

However, which of those things will happen, when, where, how and how does

that relate to current market pricing is a difficult question. So, how do you balance an appreciation for the significance of a problem in understanding of its complexity and find a way to roll up your sleeves and get started? I mean, earlier today, I was talking to someone at (Inaudible) and that's what they're wrestling with, right, which is we know it's going to be big; we know it matters, we know it's going to affect a lot of things, but I've got to have a way to get started. So, a lot of our work is spent really doing a couple things. I want to clear the underbrush. If there is this ideological underbrush that either makes people too apt to love it or hate it, let's get that out of the way, let's have an investing conversation, number one.

Number two, let's ground it in a thesis.

The thesis for us is simple, right, which is

all of these tools are really only useful to

the degree they do some combination of

three things; is this a way to

manage risk, is this a way to find growth,

opportunities that may not be fully

appreciate by the market or is it a way to

drive operational efficiency and

resilience? So, have a thesis of

what are the levers I can use to try to

drive value in my portfolio over time,

number two. Number three, find

actionable ways to get started. Find

these ways to take measured

experiments. It

doesn't have to be all or nothing, it doesn't

need to be the whole portfolio, but find a

way to get started.

And then finally, four, reflect and iterate, both on your own experience and how the field is developing. So, the question in some ways is always the same, really some variation of, okay, this all makes sense, but how do I get started? And the process at a generic level is the same, clear the underbrush, have a clear thesis, find an entry point and evolve over time. But it manifests itself quite differently, these different institutions.

JAKE SIEWERT

So, they're practical and they just want to get on with it?

JOHN GOLDSTEIN

Yes.

JAKE SIEWERT

Some of them. So, John, you've covered

a lot of ground. Is there a particular area that we haven't discussed that you're excited about over the next 12 to 18 months?

JOHN GOLDSTEIN

One thing that I've been really excited about, and this is partially a lens that gave rise to what I do and partially an engine for carrying it forward is, you know, I think you've talked and heard about other folks who are talking about this sort of one Goldman Sachs idea that, you know, I like to say that the idea that clients shouldn't have to get a PhD in Goldman Sachs to get the benefits of our best thinking. And I think this is a topic that has been extremely conducive to that, is sitting down with large clients and saying, how can we help? This is a top-of-mind issue, how can we

help? And it doesn't matter which division, which function, which product, which service, which anything. What do you need?

And what's happened, what we found is that there's been a high level of engagement with these clients and what emerges from it is usually a work plan. You know, at the end of the day, we'll go through the range of conversations and say, yes, that one, no, that one, tell me more about this and here are two you haven't mentioned. And we'll effectively have a work plan that we'd project manage, this ability to sort of help clients to project manage across these important issues and transitions with a variety of functions and capabilities we have a firm doing.

I mean, I was talking to the senior executive at a large company the other day. We went through a range of topics and a range of issues. And just one example, they said, you know, we're really excited about moving a much more sustainable packaging. We have a great supplier, we'll buy everything they make, but they really need financing to build a plan. Is there a way you can help? Earlier that day, I had a conversation with our merchant bank who wanted to share research on seeing alternative packaging as a really exciting growth area that made some investments and they want to make more. Separately, this idea of using corporate off-takes to make

transactions financeable and financeable at scale ... I talked about Northfold earlier, that's the way renewable power group works, sort of harnessing the power of the corporate off-taker.

And so, to get to sit down and connect those dots, right, where the client doesn't necessarily need to know all those different things going on, but we do, and to be able to sit down, understand their need and bring that together, and that's a microcosm, but I think we found with some of these clients, we have five, six, even seven different sustainable financial workstreams going on that cover a range of issues and that ability to take what can feel like a fragmented approach when people are very, very busy and make a

coherent and project managed, really helping folks really move forward in their organization and accomplish their goals.

JAKE SIEWERT

That's great. On that optimistic note, we'll wrap things up. Thanks for joining us, John.

JOHN GOLDSTEIN

Thanks so much, Jake.

JAKE SIEWERT

That concludes this episode of Exchanges at Goldman Sachs. Thanks for listening and if you enjoyed this show, we hope you subscribe on Apple Podcasts and leave a rating or a comment.

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check out our new podcast, “Top of Mind at Goldman Sachs,” hosted by Allison Nathan, a senior strategist in the firm’s research division. Thank you.

This transcript has been edited for clarity.