



**Asset
Management**

ESG and Impact Investing

Tower Hamlets

Goldman Sachs Asset Management

September 2020

ESG and Impact Investing



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-
- I. An Introduction to ESG and Impact Investing
 - II. GSAM Fixed Income ESG Capabilities
 - III. Appendix
 - IV. Disclosures



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I. An Introduction to ESG and Impact Investing

State of The World

Significant and Rising Challenges as A Result of Climate Change and Unsustainable Environmental Practices



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Dynamics Driving a Secular Trend Towards ESG and Impact Investing

Secular Trends



Growing Consequences

Climate Risk, Social Tension Transparency and Connectedness



Changing Preferences

Consumers, Workers, Companies, Asset Owners and Regulators



Improving Economics

Drive for efficiency, innovation and growth

Sustainable Growth

Climate Transition

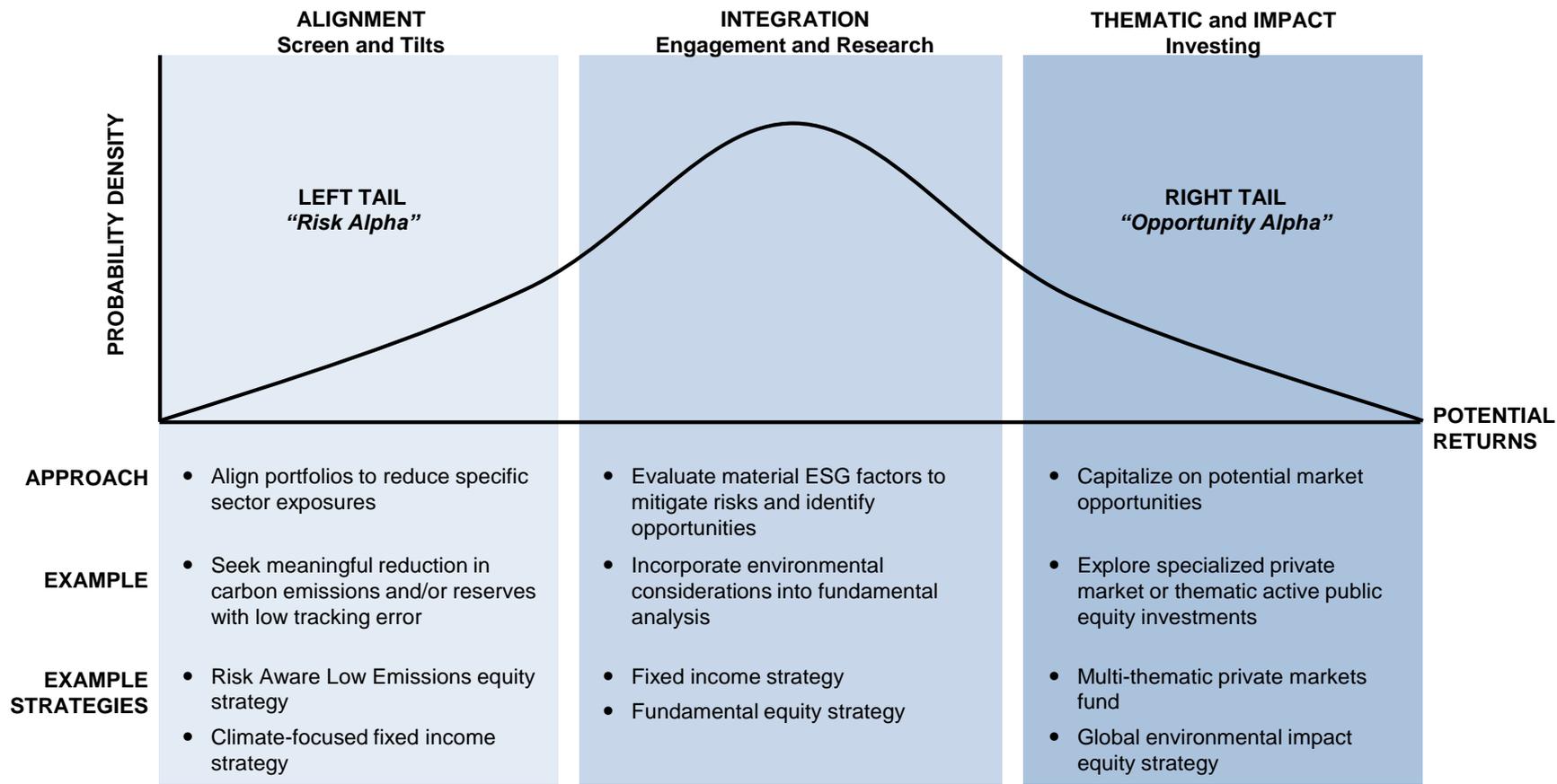
Inclusive Growth

ESG Approaches Can Be Applied to Meet Different Objectives



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- ESG integration can be applied across a framework that can identify risks, opportunities, or both



Source: GSAM, as of 30-Jun-2020. For illustrative purposes only and should not be construed as research, investment advice, or a recommendation. There is no guarantee that objectives will be met. The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

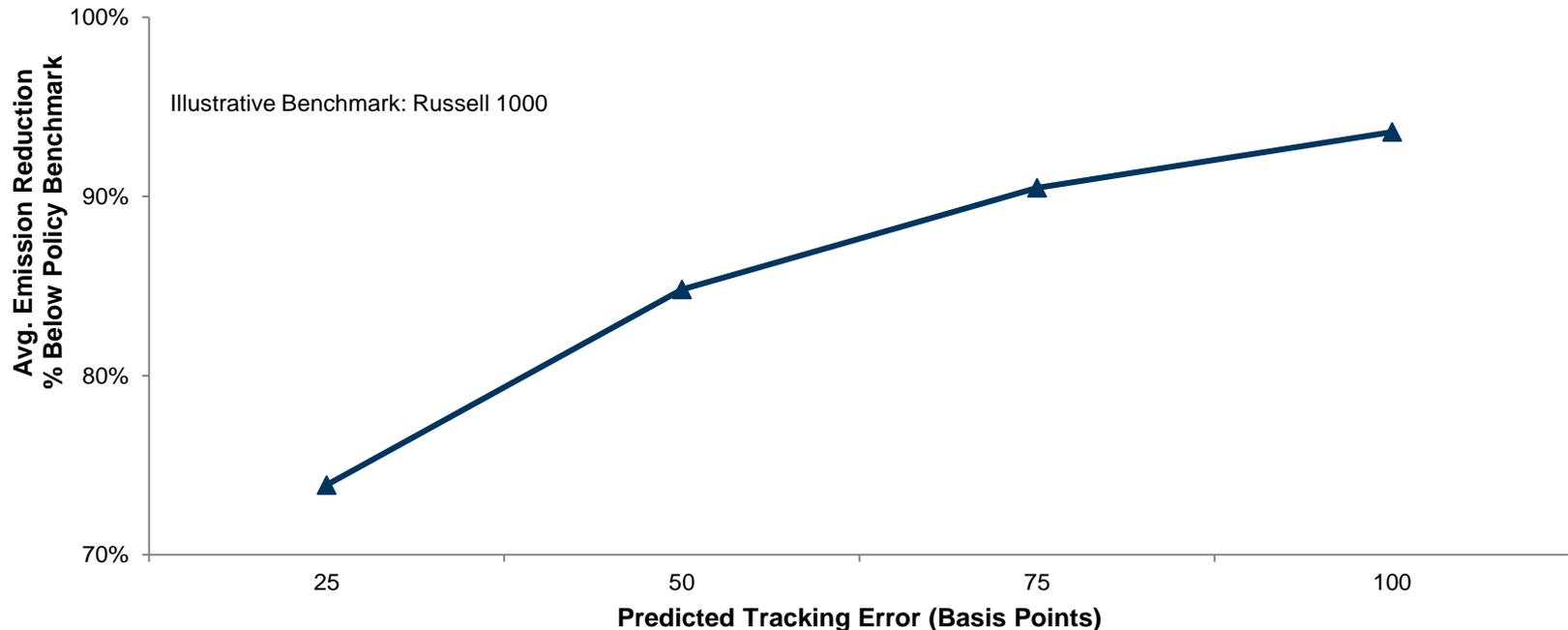
Address Left Tail Risk

Example 1: Risk Aware Low Emissions strategy enables investors to reduce emissions while maintaining benchmark-like exposure



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Illustrative Passive Low Emissions Strategy Backtest



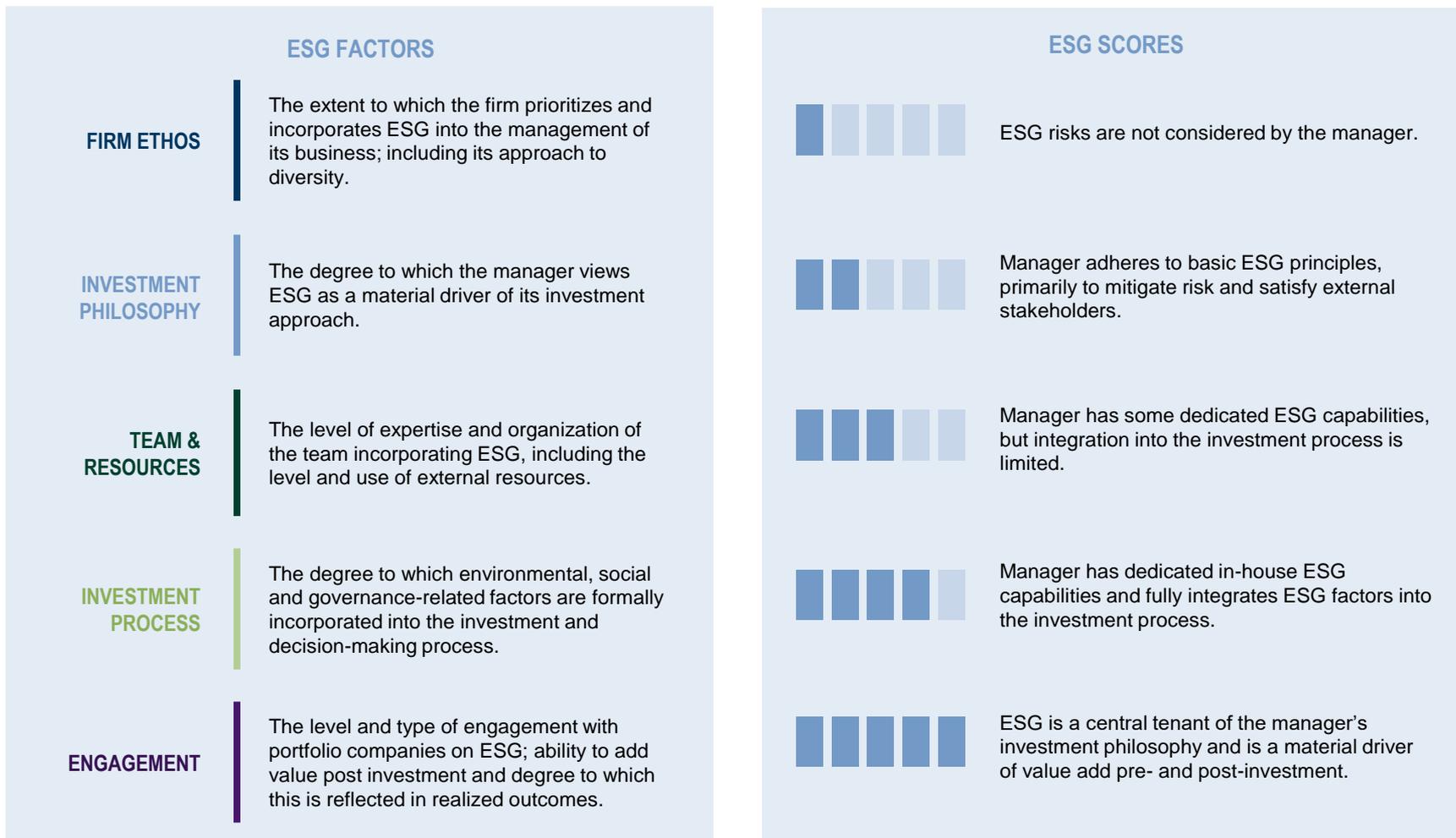
For illustrative purposes only. Performance results vary depending on the client's investment goals, objectives, and constraints. There can be no assurance that the same or similar results to those presented above can or will be achieved. Source: GSAM. Data range chosen due to availability and quality of carbon data. Due to a delay in data availability, company emissions are through December 2014. The information shown herein is intended to demonstrate the potential effects on predicted tracking error of applying a carbon reduction energy approach to an illustrative portfolio comprising companies in the Russell 1000. Predicted tracking error are statistical estimates of the divergence between the price behavior of a strategy and the price behavior of its benchmark, derived from statistical models. Actual tracking errors are likely to vary from the predicted tracking error. The illustrative portfolio reflects various tilts to companies seeking to reduce carbon emissions. Investors cannot invest directly in indices. The information shown herein should not be relied upon as representative of actual or future information for any Goldman Sachs products. **Backtested performance shown is not actual performance and in no way should be construed as indicative of future results.** Backtested performance results are created based on an analysis of past market data with the benefit of hindsight, do not reflect the performance of any GSAM product and are being shown for informational purposes only. Please see additional disclosures.

Assess and Enhance Environmental Competencies

A factor based framework to assess managers' ESG capabilities



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Capitalize on Potential Right-Tail Opportunities

Impact investments are primarily in private markets and cover a broad range of themes



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CLEAN ENERGY

Distributed
Utility
Energy Efficiency
Grid Services



SUSTAINABLE TRANSPORT

Electric
Connected
Autonomous



EDUCATION

Early Childhood
K-12 Education
Higher Education
Workforce Training



HEALTH

Digital Health
Care Coordination
Infrastructure
Devices & Diagnostics
Pharma & Biotech



FINANCIAL INCLUSION

Financial Technology
Alternative Credit
Insurance



FOOD & AGRICULTURE

Agricultural Production
Processing & Distribution
Green Consumer Products



WASTE & MATERIALS

Industrial Efficiency
Sustainable Materials
Recycling



ECOSYSTEM SERVICES

Water
Habitat
Carbon

For discussion purposes only and should not be construed as research, investment advice or a recommendation. Certain markets or sectors may not develop as anticipated.

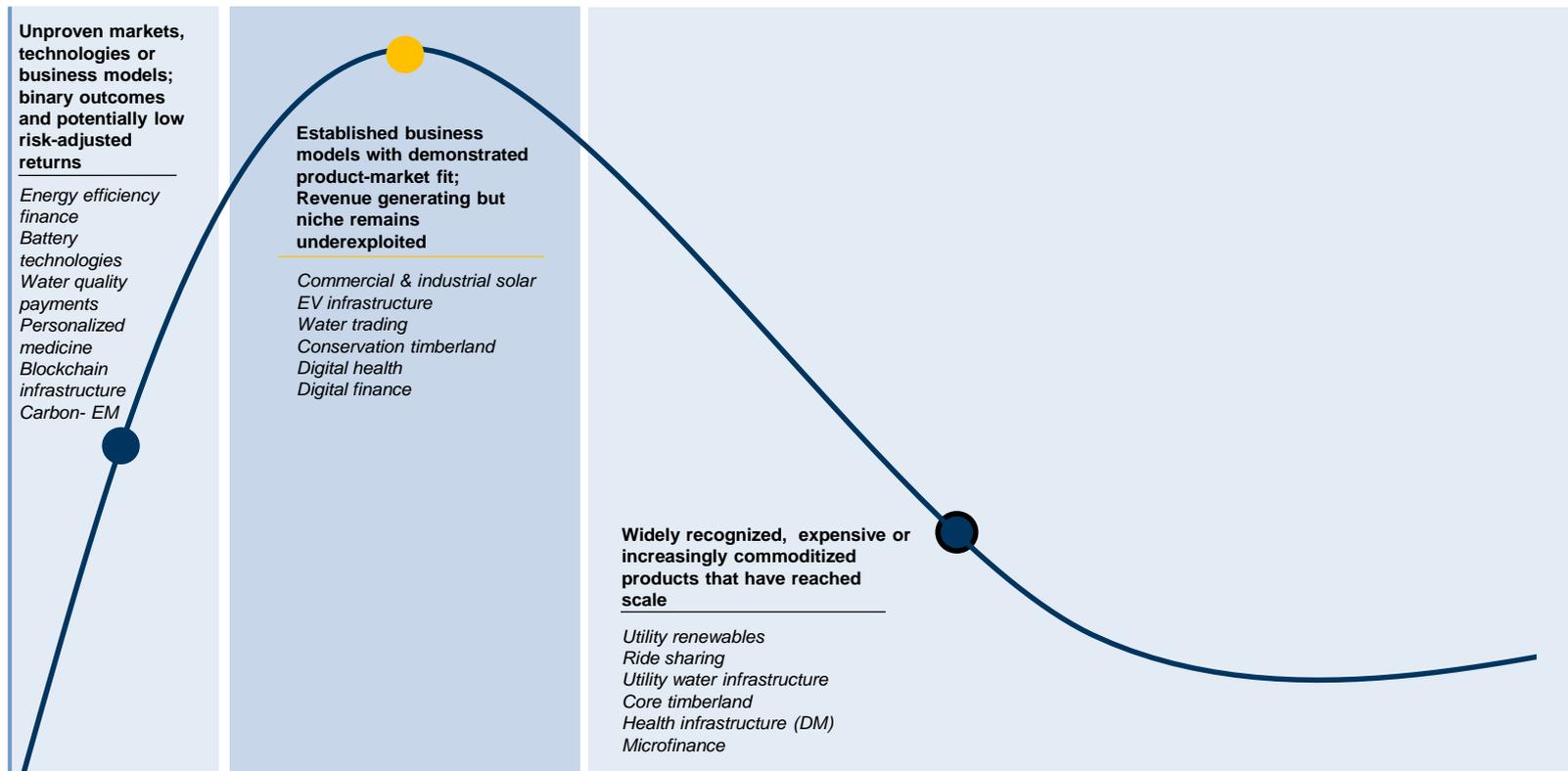
Capitalize on Potential Right-Tail Opportunities

We believe opportunities are often found in sub-themes that are largely de-risked, but not yet widely adopted



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INVESTMENT ATTRACTIVENESS



MATURITY (TIME)

Capitalize on Potential Right-Tail Opportunities

Illustrative UN SDG Impact Investing Program



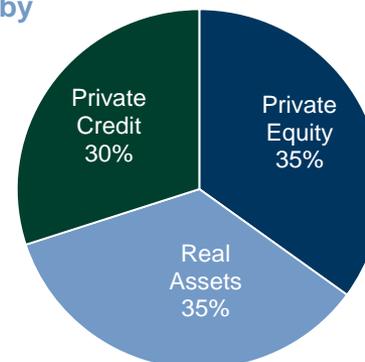
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Illustrative Program Characteristics

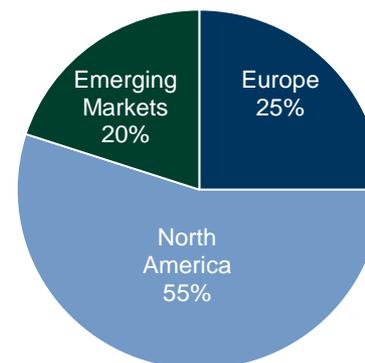
Vintage Years	3
Vintage Commitments (#)	8 -10
Vintage Commitments (\$)	\$167mm

Illustrative Portfolio Allocation

Diversification by Asset Class



Diversification by Geography



COMMENTARY

- Illustrative allocations represent diversification objectives and more conservative posture with focus on mitigating “J Curve”¹
- Flexibility to invest across sustainability themes but goal of tying to the United Nations Sustainable Development Goals, where possible
- Global geographic orientation focused on markets with highest manager quality and best value
- Number of investments driven by diversification objectives and absorptive capacity of managers in each vintage year
- Given limited visibility into potential 2020 vintage year allocations, illustrative allocations are driven by 2018 and 2019 vintages

Allocation as of June 2017.

¹ The J-curve refers to the cumulative net cash flow seen by an investor, which for private equity investments is typically negative in the first several years after the initial commitment due to capital being drawn down for investments and generally becomes positive after capital is returned and the fund becomes net cash flow positive.

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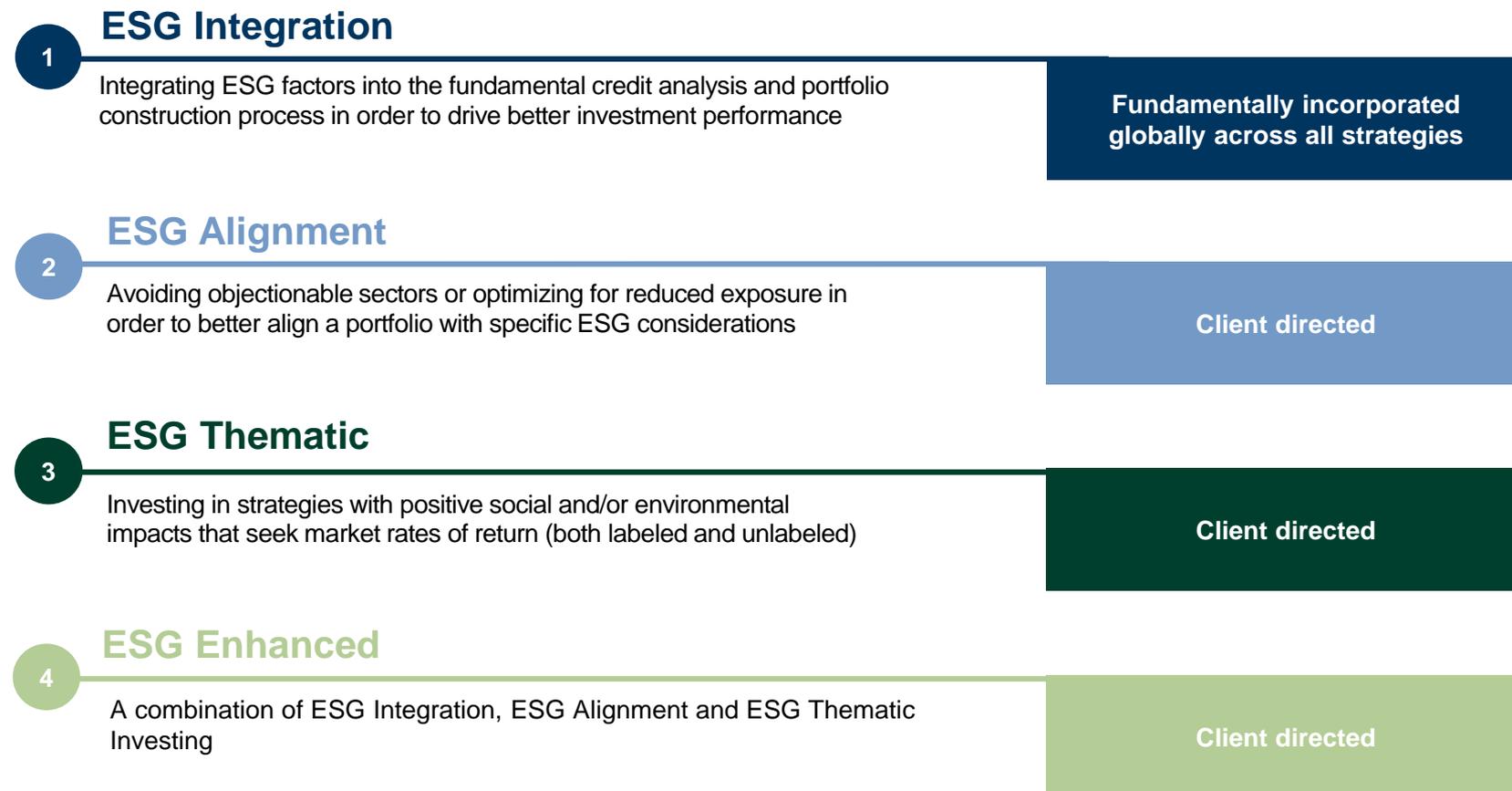
II. GSAM Fixed Income Capabilities

GSAM Fixed Income ESG Overview

We View ESG Strategies as a Spectrum of Approaches to Achieve Specific Outcomes



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GSAM Fixed Income Approach for ESG Integration and Solutions

ESG Philosophy



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Led by Fixed Income senior management, all investment teams integrate ESG as a core component of the investment process, informed by ESG specialists and enhanced by data



We believe integration of material ESG factors into our investment process enables us to:

- ➔ Make better investment decisions
- ➔ Encourage positive change in issuer behavior
- ➔ Focus on meeting client needs

ESG considerations are fundamentally integrated into our investment decisions & valuations

GSAM Fixed Income ESG Capabilities

Significant focus on developing broader and deeper capabilities



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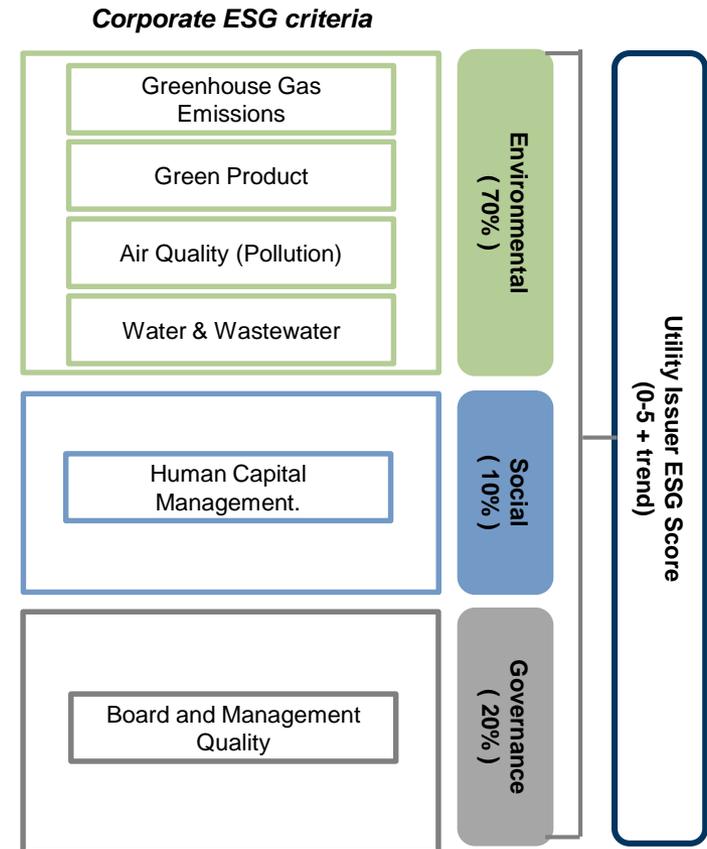
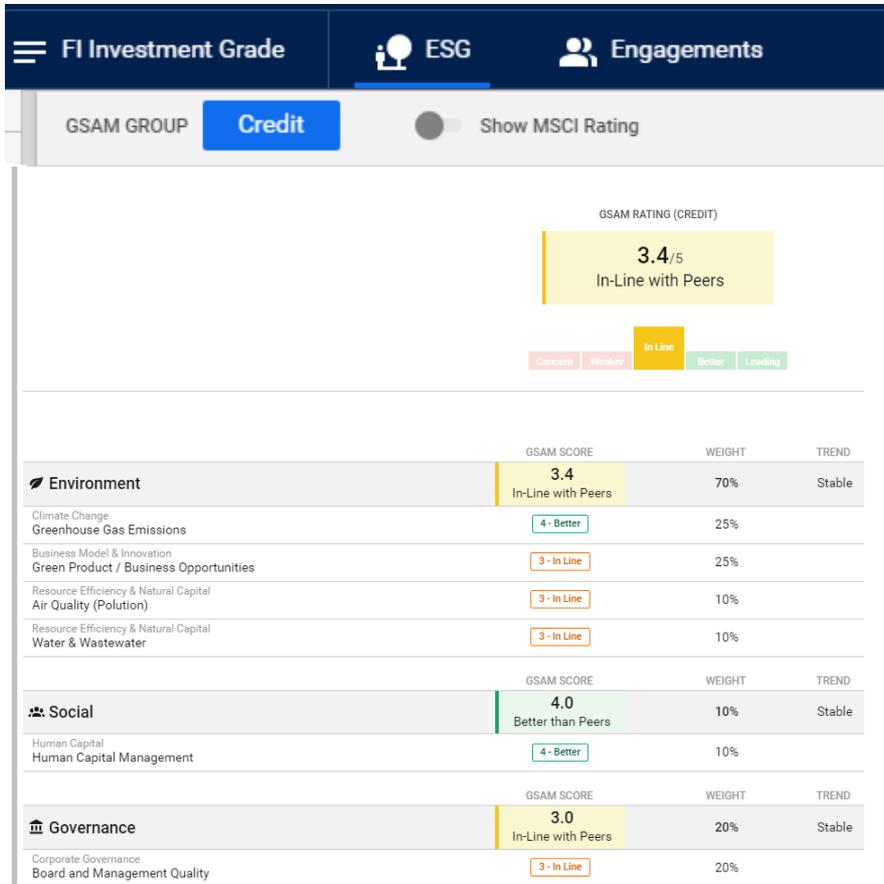


Bottom-Up ESG Integration: Internal ESG Ratings

Internal ESG ratings based on taxonomy developed by dedicated ESG team and applied by sector analysts and sovereign economists



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Source: GSAM. As of August 31, 2020. For illustrative purposes only.

Bottom-Up ESG Integration: GSAM Engagement

Engagement tracked across investment teams



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Engagements
ILLUSTRATIVE EXAMPLE
^

Governance – Board Composition & Quality, Compensation, Supply Chain Management & Materials Sourcing

[View All](#)

Meeting Date	Business Unit	Who Engaged	Topics	Details
Jan 08, 2020	Stewardship, Fundamental Equity	A. Wiener, C. Winner	<div style="border: 1px solid #ccc; padding: 2px; display: inline-block;">Environment – Ecological Impacts & Biodiversity</div> <div style="display: inline-block; margin-left: 5px;"> E S G ... </div>	<div style="display: flex; align-items: center; gap: 10px;"> ⓘ 💬 🔗 </div>

Field	Value
Meeting Type	Company 1 x 1
People Met	[REDACTED]
Meeting Subject	Off-Season Stewardship Engagement
Location	Call
Organiser Type	Direct
Is Offering Related?	<input type="button" value="NO"/>

Meeting Notes

Business Roundtable Involvement:

[REDACTED]

Broader Influence: Project Gigaton:

[REDACTED]

Board Composition:

[REDACTED]

Executive Compensation:

[REDACTED]

Sustainability:

[REDACTED]

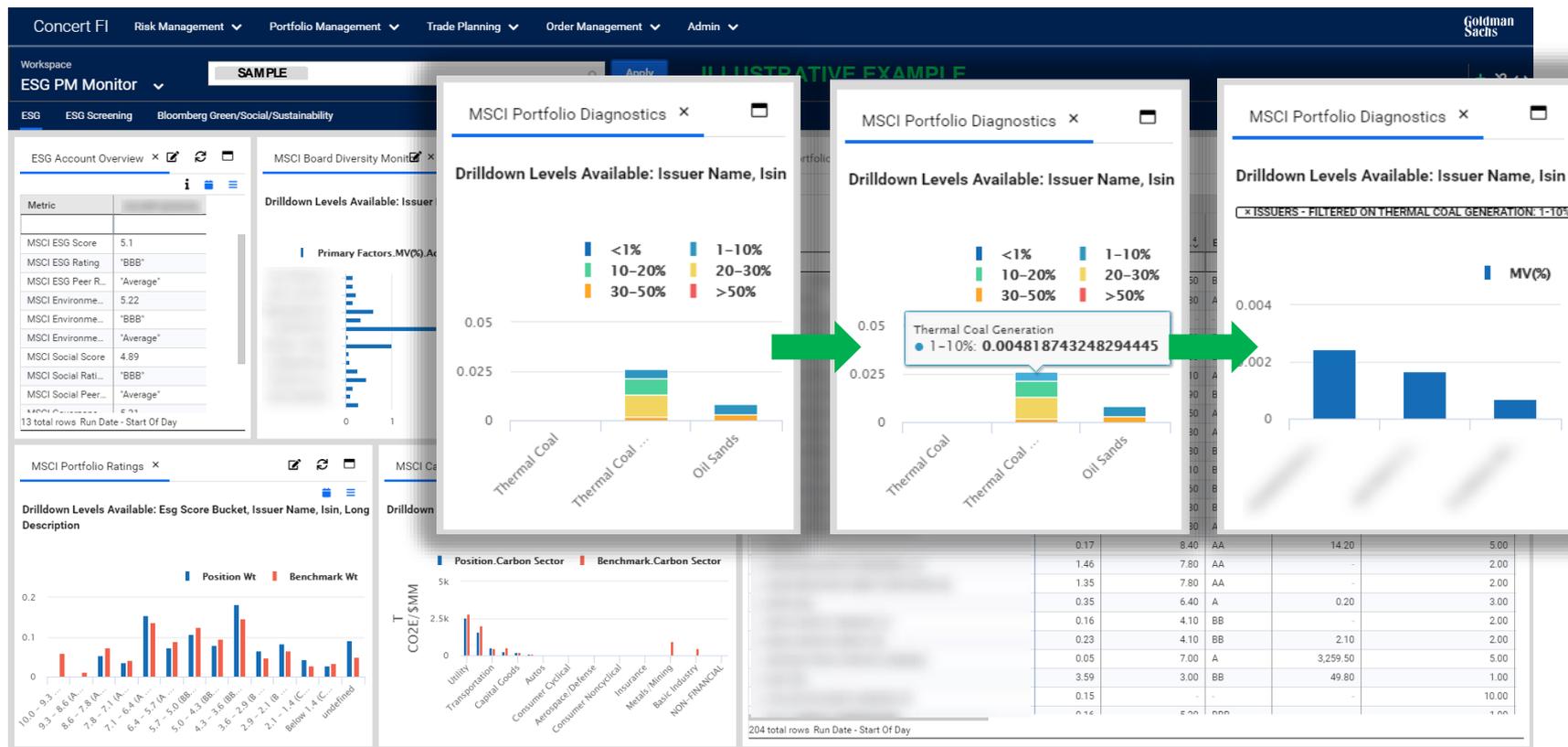
Source: GSAM. As of August 31, 2020. For illustrative purposes only. The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

Top-Down ESG Integration: Portfolio Management Systems

ESG PM Monitor Dashboard Overview



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Source: GSAM. As of August 31, 2020. For illustrative purposes only. The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

Top-Down ESG Integration: Portfolio Management Systems

ESG Enhanced Impact Analysis of Portfolio and Benchmark



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The screenshot displays a portfolio management system interface with the following components:

- Navigation Menu:** Concert FI, Risk Management, Portfolio Management, Trade Planning, Order Management, Admin.
- Table:** A table comparing portfolio and benchmark data across various metrics. A green box highlights the 'SPREAD', 'DURATION', 'RATING', 'YTM', and 'YTW' columns.
- Basic Details Sidebar:** A sidebar on the right showing 'Basic Details' for the portfolio, including 'BASE CURRENCY' (USD), 'WEIGHT' (Weight By MV), and 'AS OF DATE' (05/29/2020). A green box highlights this sidebar.
- Rules Section:** A section for defining ESG constraints and thresholds. A green box highlights the rules: 'ESG MSCI Carbon Emissions Scope >= 1000', 'ESG MSCI Generat Max Revenue The... >= 10', and 'ESG MSCI Percentage Women <= 10'.
- Annotations:** Four green circles with arrows pointing to specific elements: 1 (Accounts/Benchmarks), 2 (Rules), 3 (Basic Details), and 4 (RATING column).

ENTITY	MV (MM)			SPREAD	DURATION			RATING	YTM			YTW			COUNT						
	PRE	POST	DELTA		PRE	POST	DELTA		PRE	POST	DELTA	PRE	POST	DELTA	PRE	POST	DELTA				
REP. ACCOUNT	333,226.1	299,559.2	-10.10%	112	106	-5.40%	2.1	2.1	-0.66%	A-	A-	0.0	1.5	1.4	-5.44%	1.4	1.3	-4.36%	283.0	245.0	-13.43%
BENCHMARK	1,055,073.4	982,266.6	-6.90%	97	95	-2.07%	1.9	1.9	0.55%	A-	A-	0.0	1.3	1.3	-1.88%	1.2	1.2	-1.63%	1,161.0	1,059.0	-8.79%

- 1 Portfolio and/or Benchmark Selection**
- 2 ESG Constrains and Thresholds**
- 3 Portfolio Basic Details**
- 4 Portfolio and/or Benchmark ESG Enhanced Impact Analysis**

Source: GSAM. As of August 31, 2020. For illustrative purposes only. The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

Process for Building an ESG Enhanced Fixed Income Portfolio

GSAM designed and implemented an emerging market debt strategy that seeks to track the model portfolio while enhancing the portfolio's ESG characteristics



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Proposed Initial ESG Enhanced Methodology

1 Alignment of portfolio based on product involvement for corporates:



Tobacco



Coal



Gene Technology



Weapons



Gambling



Shale Oil & Gas

2 Alignment of portfolio based on objectionable Investments & Policies for Sovereigns:



Defense



Democracy



Human Rights



Environment

3 Identify individual exclusions based on 'severe controversies' and client's exclusion list

4 Optimize and reduce carbon intensity of the portfolio vs benchmark:

- Try to substitute top carbon emitters with more energy efficient companies based on carbon intensity score

5 Invest in green/social/sustainability (GSS) bonds on a best efforts basis

Impact on Top Level Statistics

	Model Portfolio	ESG Enhanced Portfolio
OASD (yrs.)	5.08	4.78
Yield to Worst (%)	6.85	6.92
Average Credit Rating	BBB-	BBB-

Impact on Model Portfolio Composition

Screens	Threshold	% of portfolio screened
Corporate Screens:		
Genetic Engineering	Rev > 5%	0.49%
Thermal Coal Mining	Rev > 5%	0.16%
Controversial Weapons	Rev > 5%	0.03%
Civilian Firearms	Rev > 5%	0.00%
Shale Oil & Gas	Rev > 5%	6.88%
Controversy	Score = 0	1.96%
United Nations Global Compact	Fail	1.96%
ESG Score	Score < 1.49	2.12%
Other	-	1.62%
Sovereign Screens:		
Nuclear Weapons Involvement	Yes	0.00%
Defense Expenditure	> 4% of GDP	1.51%
Freedom House	Weak Civil Liberty: Yes	2.37%
ESG Score	Score < 4	1.09%
Total Exclusion		13.95%¹

ate values

Source: GSAM Fixed Income as of May 21, 2020. For Illustrative Purposes Only. Example shows the impact of imposing ESG constraints on an Index. **Past performance does not guarantee future results, which may vary.** There is no guarantee that objectives will be met. Portfolio holdings and/or allocations shown above are as of the date indicated and may not be representative of future investments. The holdings and/or allocations shown may not represent all of the portfolio's investments. Future investments may or may not be profitable. The model portfolio provided herein has certain limitations. These results are based on simulated or hypothetical performance results that have certain inherent limitations. Unlike the results shown in an actual performance record, these results do not represent actual trading. Also, because these trades have not actually been executed, these results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to these being shown. GSAM does not currently manage a strategy that is appropriate to present for the investment strategy being proposed for you. A complete list and description of GSAM's composites is available upon request. It does not purport to show the holdings or sector weightings of an actual account. This information is shown for illustrative purposes only and does not constitute a recommendation of exposures for any client account. The exposures for the model portfolio will differ from the exposures for a client account because of specific client guidelines, objectives and restrictions.

Integrating ESG into the Investment Policy Statement (IPS)

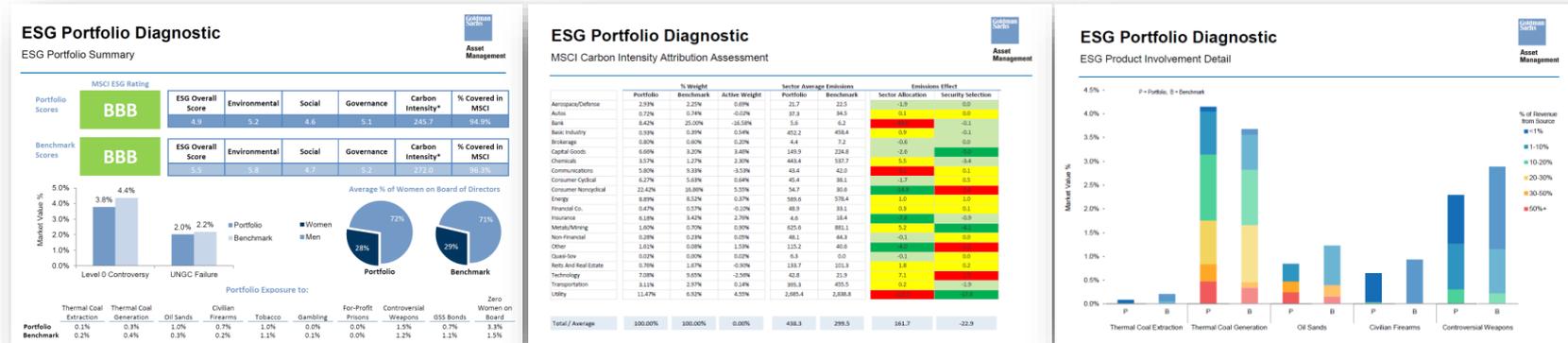
Case Study: Assisting a Large U.S. Insurer



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- We manage a large multi-sector portfolio for a large U.S. insurer
- The client was interested to learn more about our fundamental ESG integration process, our ESG enhanced solutions, and how to clearly articulate its ESG focus within their IPS to various stakeholders
- The client requested that we work with them to incorporate the following ESG considerations within their broad IPS
 - Highlight ESG as an important consideration for its internally-managed assets and third-party manager selection process
 - Require high standards for third-party managers (e.g., fundamental investment team expertise, dedicated ESG personnel, data and systems integration, active membership in recognized industry ESG associations, client training opportunities)
 - Offer customized ESG client reporting
- After internal discussion and coordination with our investment teams, the client eventually decided to also enact certain enhanced ESG considerations into the management of its portfolio

Example of GSAM's Customized Reporting



Source: GSAM. As of August 31, 2020. The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk. For illustrative purposes only. Performance results vary depending on the client's investment goals, objectives, and constraints. There can be no assurance that the same or similar results to those presented above can or will be achieved.



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III. Appendix

Goldman Sachs' Commitment to ESG

Signatory, Memberships & Committees



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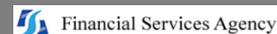
Goldman Sachs has been a signatory to the **CDP** climate change survey since 2006, and has made our climate change-related disclosures publicly available since 2010. In 2017, GS was named on CDP's Climate "A" List, which recognizes the firm as a world leader for corporate action on climate change



In 2016, GSAM became a supporter of the *Singapore Stewardship Principles*

The UK Stewardship Code

In 2012, GSAM became a signatory to the **UK Stewardship Code**



In 2014, GSAM became a signatory to the *Japan Stewardship Code*



In 2011, GSAM became a signatory to the **UNPRI**. GSAM received an overall score of an A+ on our 2020 PRI Assessment Report for the 5th consecutive year



In 2019, GSAM joined the ESG Investment Steering Committee of the *European Fund and Asset Management Association (EFAMA)*.



GSAM is a board member of the US-based, independent organization **SASB** that guides the disclosure of material ESG information by setting metrics and reporting standards for companies.



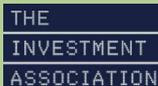
In 2018, GSAM became a signatory of the *Investor Stewardship Group (ISG)*.



In 2018, GSAM became a member of the Asset Manager Working group within the One Planet Sovereign Wealth Fund Framework



In 2019, GSAM joined **ICMA's** Green, Social & Sustainability Bond Principles Committees



In 2019, GSAM joined *The Investment Association's (IA) Sustainability and Responsible Investment Committee*



In 2015, GSAM became a **Climate Bonds Initiative (CBI)** Partner. As a Partner GSAM is part of a global movement that seeks to utilize bond markets to deliver a rapid transition to a low-carbon and climate-resilient economy.



In 2019, Goldman Sachs joined the **Climate Finance Leadership Initiative** as one of six founding member institutions. The initiative, led by Michael Bloomberg, will help facilitate the private financing objectives included in the Paris Agreement.



In 2019, GSAM joined the UNDP SDG Financing Technical Committee, to assist in the development of SDG impact standards, financial instruments and innovative business



In 2019, GSAM was selected to join the United Nations Environment Programme Finance Initiative (UNEP FI) Reference Group for 'A Legal Framework Impact'. This initiative publishes legal analysis and recommendations for investors seeking to account for sustainability impact in the investment process.



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IV. Disclosures

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An investment in real estate securities is subject to greater price volatility and the special risks associated with direct ownership of real estate.

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References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. The index composition may not reflect the manner in which a portfolio is constructed. While an adviser seeks to design a portfolio which reflects appropriate risk and return features, portfolio characteristics may deviate from those of the benchmark.

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Environmental, Social, and Governance ("ESG") strategies may take risks or eliminate exposures found in other strategies or broad market benchmarks that may cause performance to diverge from the performance of these other strategies or market benchmarks.

ESG strategies will be subject to the risks associated with their underlying investments' asset classes. Further, the demand within certain markets or sectors that an ESG strategy targets may not develop as forecasted or may develop more slowly than anticipated.

Index Benchmarks

Indices are unmanaged. The figures for the index reflect the reinvestment of all income or dividends, as applicable, but do not reflect the deduction of any fees or expenses which would reduce returns. Investors cannot invest directly in indices.

The indices referenced herein have been selected because they are well known, easily recognized by investors, and reflect those indices that the Investment Manager believes, in part based on industry practice, provide a suitable benchmark against which to evaluate the investment or broader market described herein. The exclusion of "failed" or closed hedge funds may mean that each index overstates the performance of hedge funds generally.

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