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# 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

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# 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

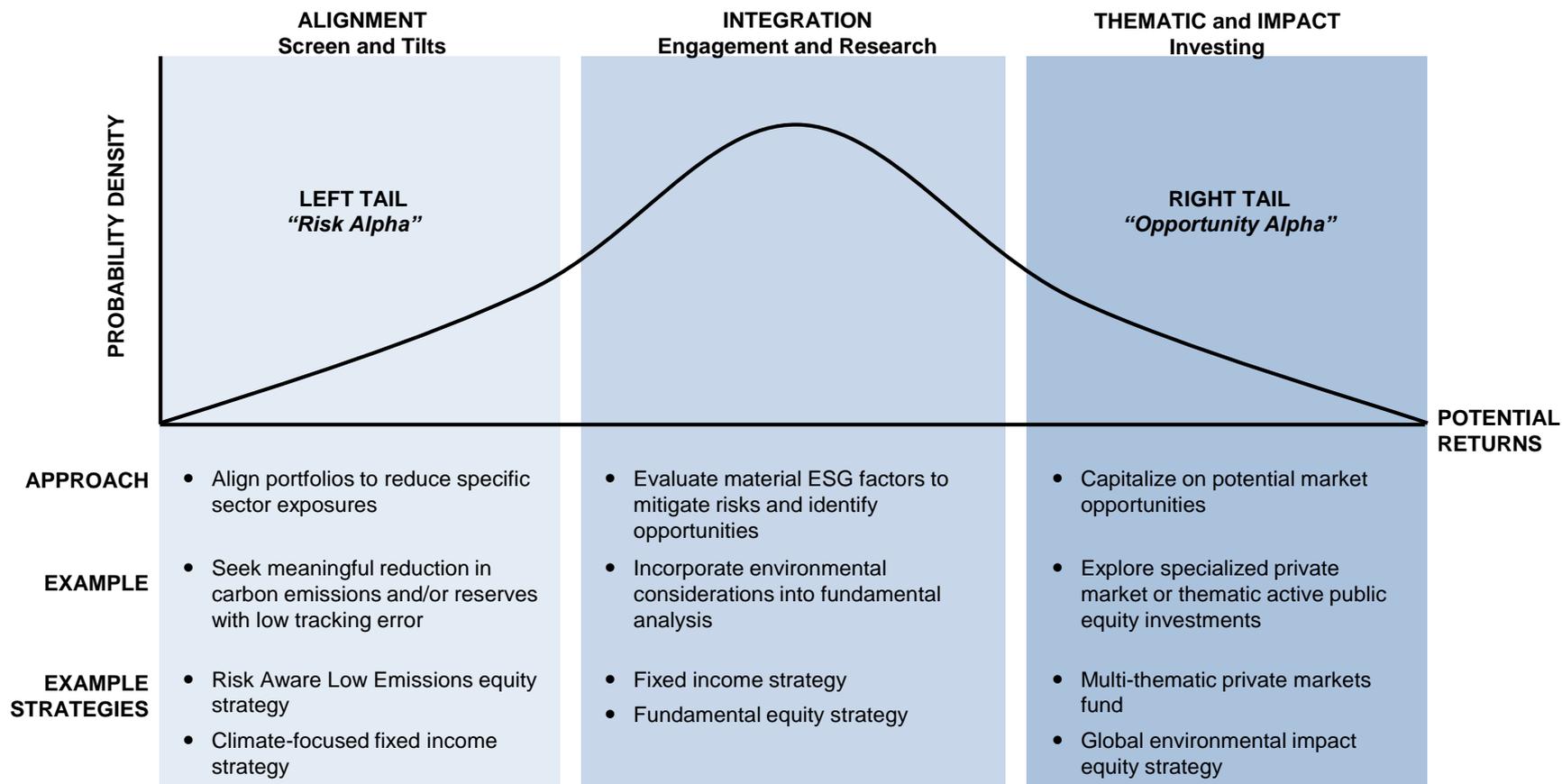
Inclusive Growth

# 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.

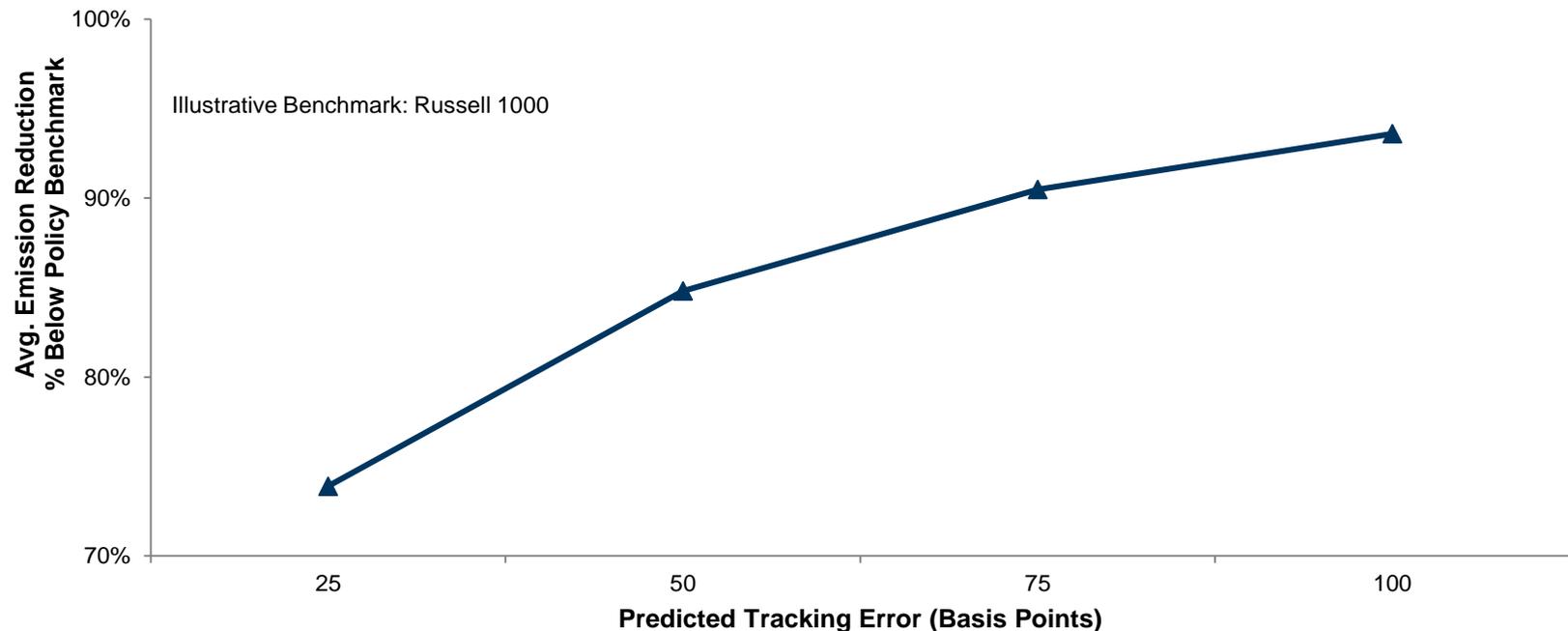
# Address Left Tail Risk

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



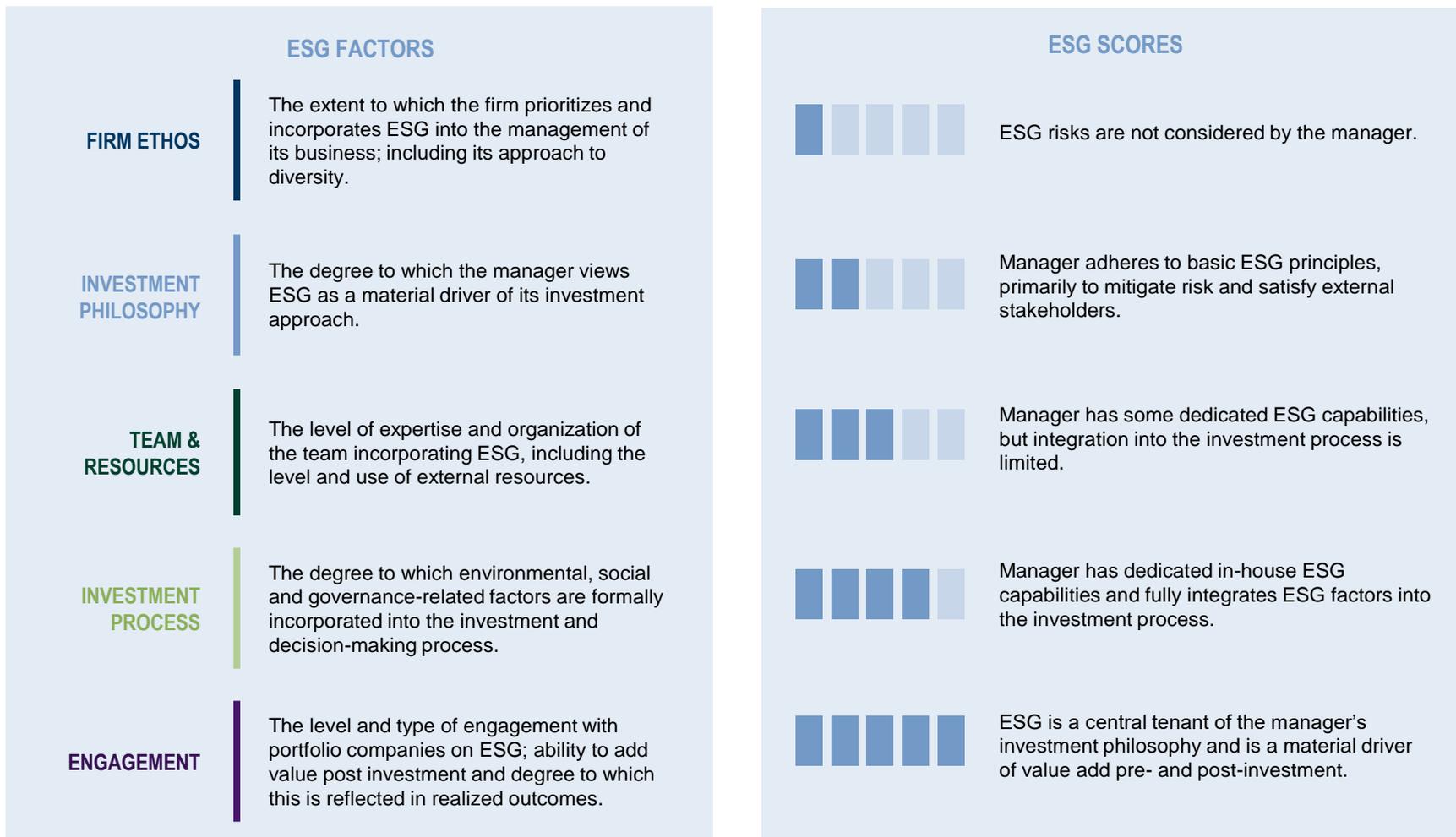
For illustrative purposes only. Performance results vary depending on the client's investment goals, objectives, and constraints. There can be no assurance that the same or similar results to those presented above can or will be achieved. Source: GSAM. Data range chosen due to availability and quality 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

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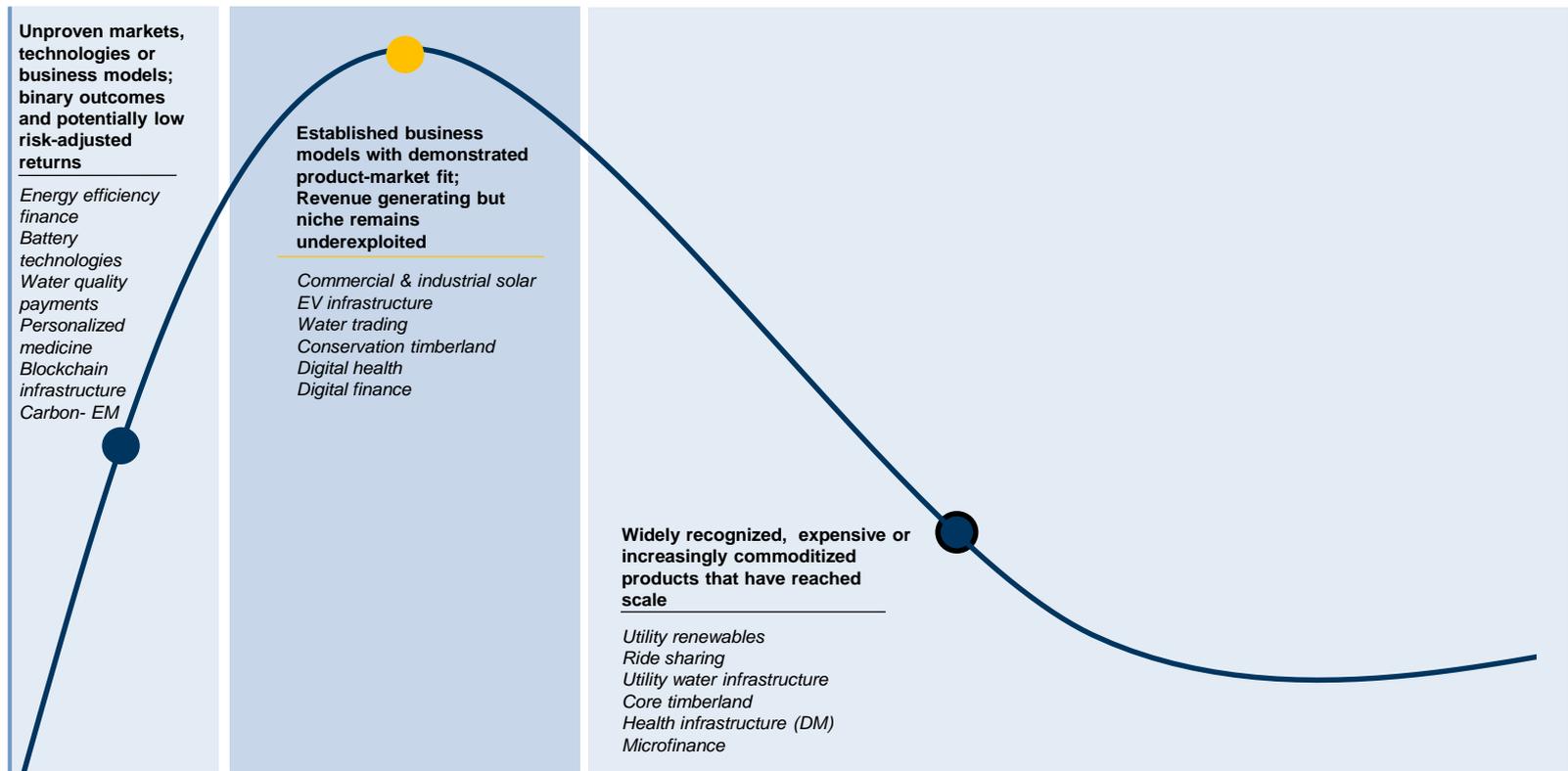
# Capitalize on Potential Right-Tail Opportunities

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



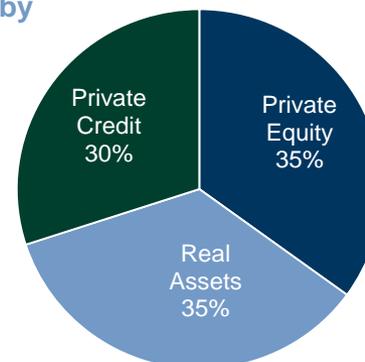
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### Illustrative Program Characteristics

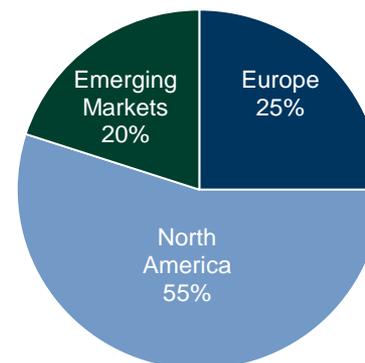
Vintage Years	3
Vintage Commitments (#)	8 -10
Vintage Commitments (\$)	\$167mm

### 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”<sup>1</sup>
- 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.

<sup>1</sup> 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

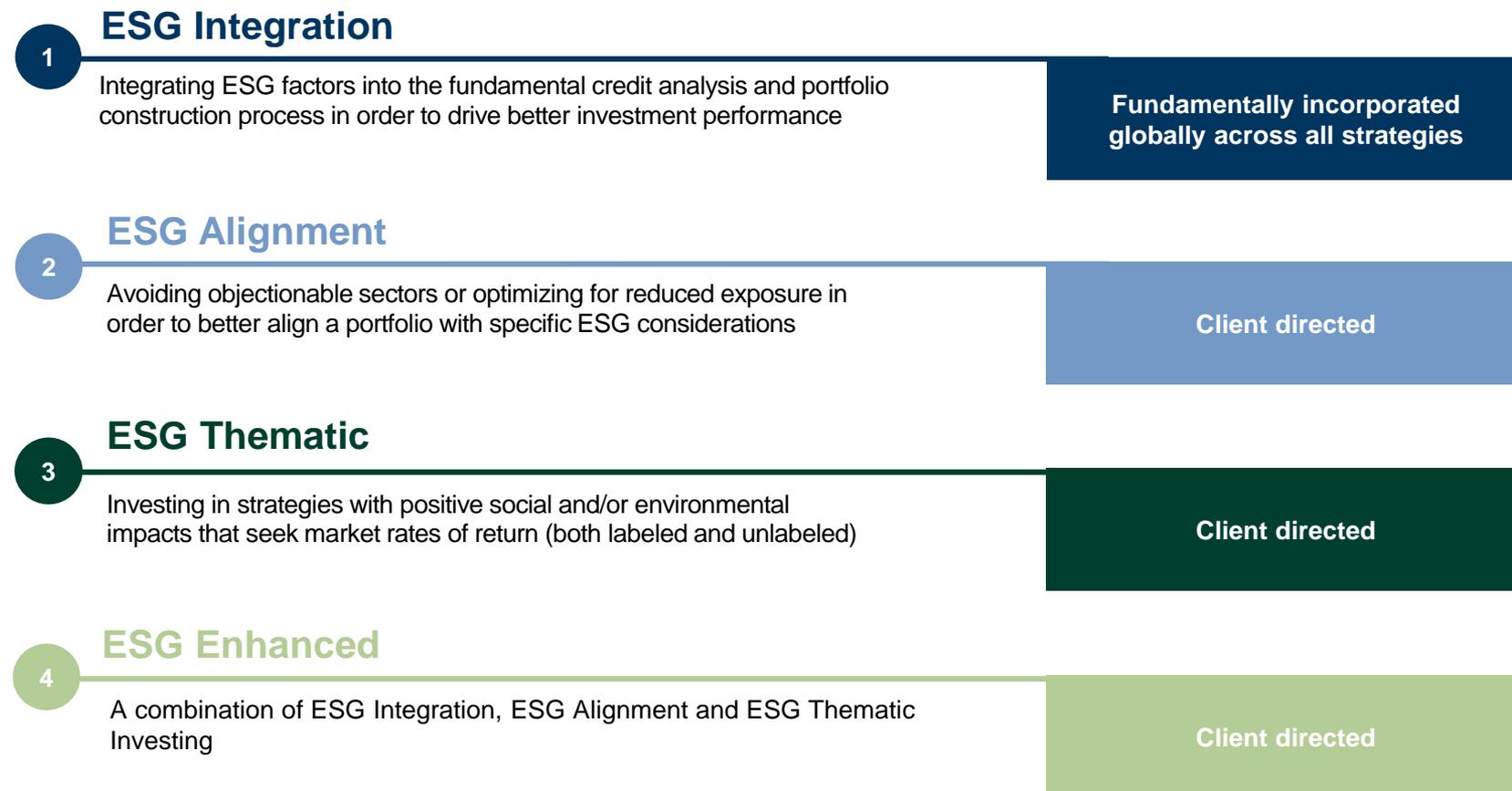
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# GSAM Fixed Income ESG Overview

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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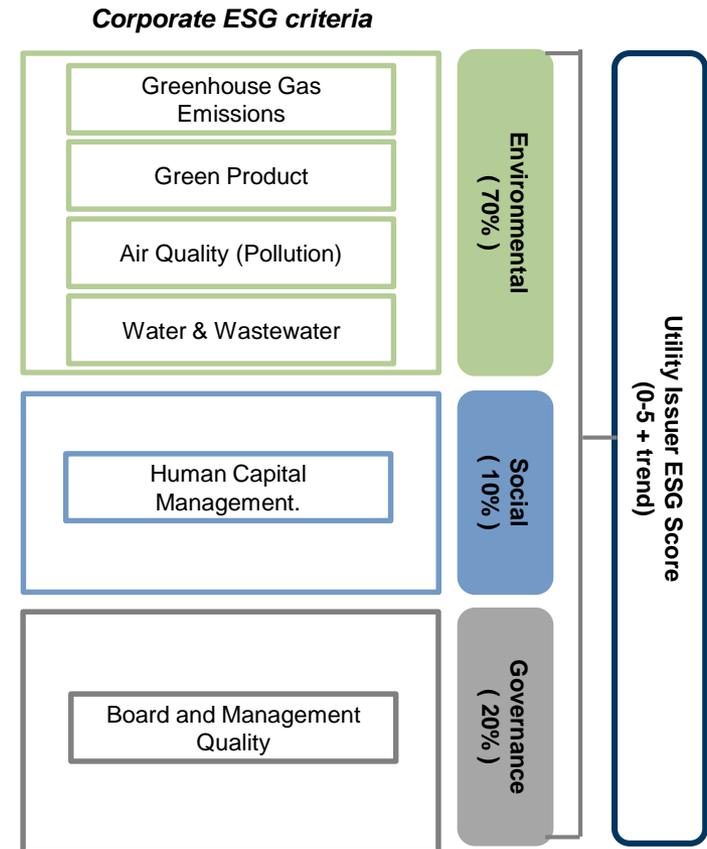
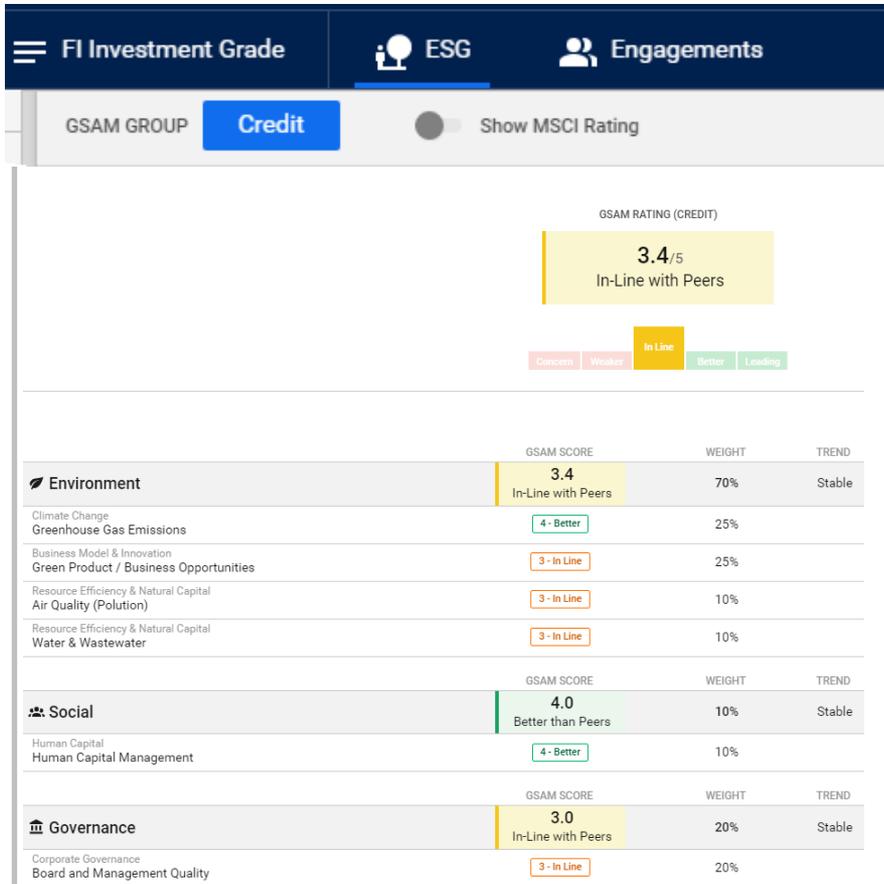


# Bottom-Up ESG Integration: Internal ESG Ratings

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 &amp; Biodiversity</div> <div style="display: inline-block; margin-left: 5px;"> <span style="background-color: #2e8b57; color: white; padding: 2px 5px;">E</span> <span style="background-color: #ccc; color: #333; padding: 2px 5px;">S</span> <span style="background-color: #2e8b57; color: white; padding: 2px 5px;">G</span> <span style="background-color: #ccc; color: #333; padding: 2px 5px;">...</span> </div>	<div style="display: flex; align-items: center; gap: 10px;"> <span>ⓘ</span> <span>💬</span> <span>🔗</span> </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]

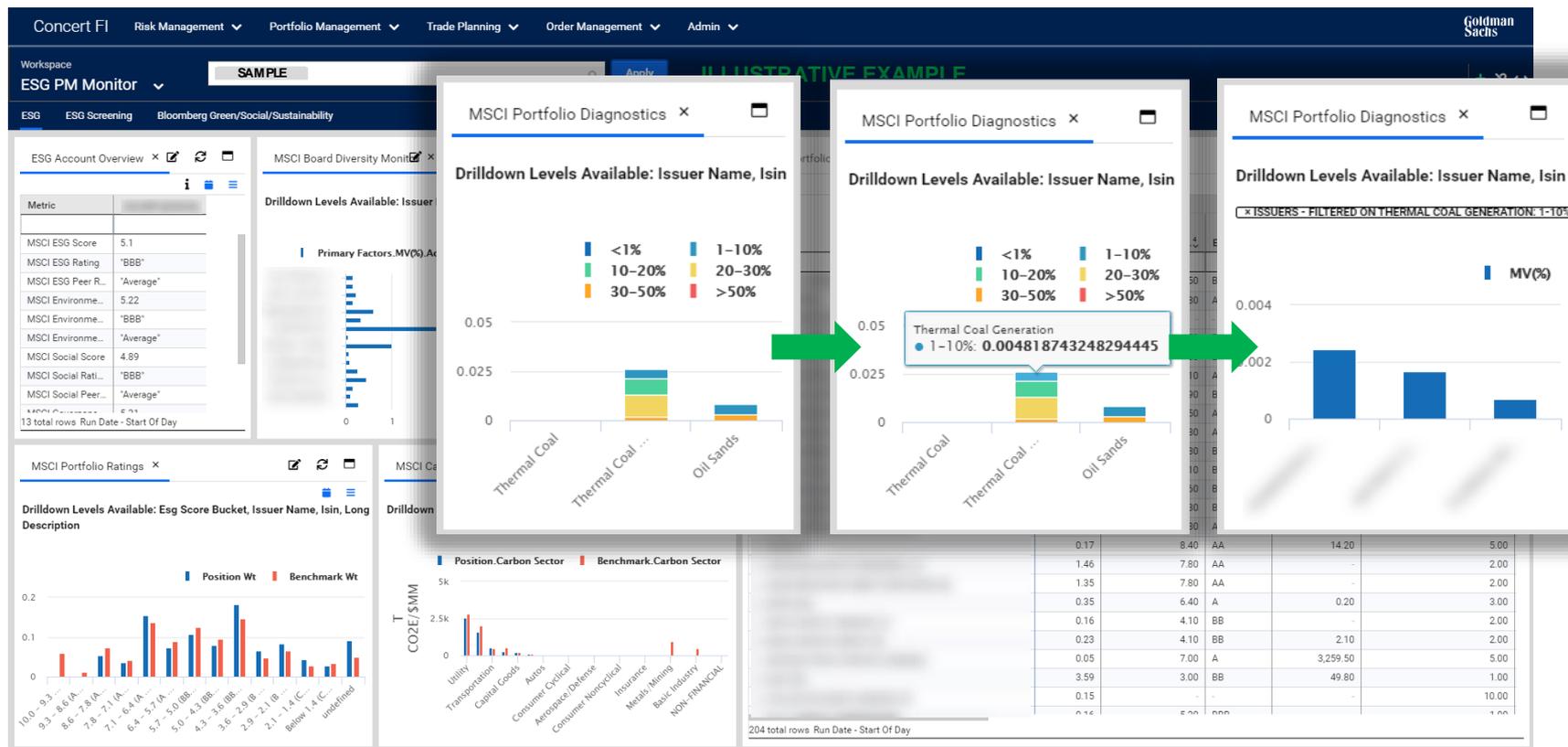
Source: GSAM. As of August 31, 2020. For illustrative purposes only. The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

# 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 the 'Concert FI' Portfolio Management System interface. The main table shows metrics for 'SPREAD', 'DURATION', 'RATING', 'YTM', and 'YTW' for both 'REP. ACCOUNT' and 'BENCHMARK'. A 'Basic Details' sidebar on the right shows 'BASE CURRENCY' set to USD, 'WEIGHT' set to 'Weight By MV', and 'AS OF DATE' set to 05/29/2020. The 'Rules' section at the bottom shows three ESG constraints: 'ESG MSCI Carbon Emissions Scope' >= 1000, 'ESG MSCI Generat Max Revenue The...' >= 10, and 'ESG MSCI Percentage Women' <= 10.

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%	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%	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
<b>Corporate Screens:</b>		
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%
<b>Sovereign Screens:</b>		
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%
<b>Total Exclusion</b>		<b>13.95%<sup>1</sup></b>

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)

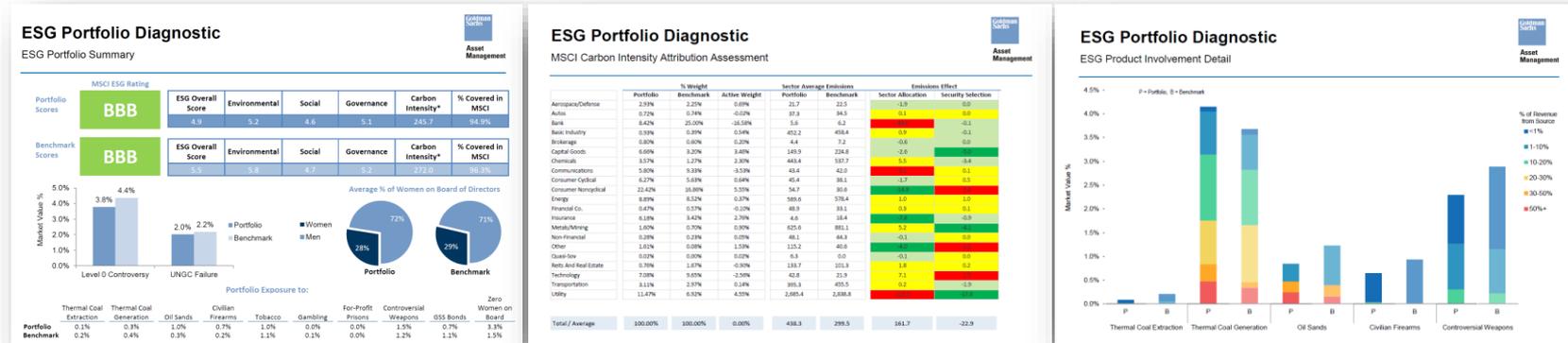
## Case Study: Assisting a Large U.S. Insurer



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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



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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.



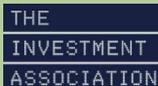
In 2018, GSAM became a signatory of the **Investor Stewardship Group (ISG)**.



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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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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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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# Disclosures



**Asset  
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