THE DAILY CHECK-IN WITH GOLDMAN SACHS

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Liz Bowyer: Hi Lisa.

Lisa Williams: Hi Liz.

Liz Bowyer: So, with the global focus on sustainability, many companies are making efforts to reduce their carbon footprints. You advise our clients in asset management on investment strategies around sometime of those efforts. Give us a general sense of what you're seeing in the space.

Lisa Williams: We're seeing a lot of momentum in terms of corporate commitments to reduce and offset their carbon footprint. Nearly every nation on earth has joined the Paris Agreement, which has really set a goal of limiting global warming to avoid irreversible change to our climate.

What this means is that countries are responsible for publicly making a commitment to reducing emissions. And that, obviously, has a direct impact on companies that are operating in those markets. But it's not just the regulators who are driving these corporate pledges. Investors, and importantly, consumers have really impacted the relationship companies have with climate change and sustainability.

So, when you look at the MSCI ACWI of global equity benchmark, nearly 2/3 of the companies in that index have actually did a cleared greenhouse gas emissions reductions targets. That's over 1,600 companies. So, that just gives you a sense of the scale of the activity that we're seeing.

Liz Bowyer: And describe some of the things that they're doing to achieve those targets.

Lisa Williams: Implementation, you know, typically first focuses on reducing the emissions from their business and then offsetting the remainder. So, we generally see companies engaging in three different approaches to meet stated targets. The first is really focusing on their core business, and where possible, shifting to a lower carbon business model or lower carbon products. You can also reduce emissions from your supply chain. So, examples of this are increasing the efficiency of how you source inputs or manufacture, purchasing renewable energy, or even strategic investments. Such as a food product company acquiring a regenerative agriculture asset to directly source produce in an environmentally sustainable way.

And then finally, obtaining emissions offsets, which can be done through open market purchases, or direct investment where you actually own the asset that's generating the offset.

Liz Bowyer: And how do you think about all of this from an investment perspective?

Lisa Williams: So, we group investing with a carbon emissions lens into two categories: climate innovation and nature-based solutions. The distinction between these is relatively clear as nature-based opportunities really consist of real asset exposure to forestry and air culture. While climate innovation is a much broader category that incorporates everything from the electrification of transportation and waste management to carbon capture and utilization technologies.

Liz Bowyer: So, let's focus on nature-based solutions. Talk a little bit more about what exactly that means and what some of the opportunities are.

Lisa Williams: So, nature-based solutions are really land-based investments into sustainable forestry or agriculture that generate a financial return through the production of essential products, such as timber or produce. An example of this would be, you know, reforestation of degraded landscapes. So, this is where you'd actually establish a sustainability managed forest which can sequester carbon through tree growth. And this reduces stress on our severely diminished natural forest resources. This works because as trees grow, they capture carbon in the landscape in their biomass, which are their stems, roots, and branches. And there are established protocols for measuring this removal and, in addition to that, we can earn a financial return from sustainable harvesting practices.

Liz Bowyer: And to that end, Apple recently announced the Restore Fund, in partnership with Conservation International and Goldman Sachs. Tell us about the fund.

Lisa Williams: So, we're working with Apple to offset corporate emissions by investing into nature-based climate solutions that, as I mentioned, yield a financial return and remove carbon from the atmosphere. Apple's been a long leader in environmental sustainability. And this is an innovative new addition to their existing initiatives.

They have a specific amount of carbon that they aim to sequester through this allocation. So, there's a lot of work that's going into ensuring that we meet financial and environmental objectives.

Liz Bowyer: And how, exactly, is the fund expected to generate a return for investors?

Lisa Williams: So, our impact investing platform intentionally has a dual focus on impact and financial performance. And nature-based solutions are a great example of investment opportunities where you can have that alignment. For example, our investments in forestry are creating sustainable wood supply in regions where there is a significant supply demand imbalance. That generates a financial return.

Liz Bowyer: So, Lisa, a common concern in sustainable investing is whether projects are actually achieving their intended environmental impact. How are you thinking about that in this case?

Lisa Williams: Because we're linking these investments to units of carbon rather than broadly supporting a sustainable project, we're using globally recognized best practice around carbon quantification, certification, and environmental integrity. We're going to be leveraging well-known standards to assess these opportunities at a project level rather than a portfolio level because we recognize the importance of really understanding what's happening locally, not just from an environmental impact standpoint, but also from a community impact standpoint. So, we'll be partnering with operators who have expertise in the markets where we’re investing, as well as standard setters to ensure that we have high integrity as it relates to, not just the environmental impact of our work on site, but also the community impact of the projects that we'll be partnering on.

Liz Bowyer: Well, another question around carbon initiatives is whether they're actually resulting in any new reduction in greenhouse gases. What's the situation here?

Lisa Williams: I think what we've seen when it comes to carbon reduction initiatives is there's a wide range of quality in terms of the types of projects and the impact they have. And I think this speaks to the enormous complexity that continues to exist in this space.

Scrtiny of these impact claims actually ensures continued public discourse. And I think that's really needed in order to facilitate increased confidence in the frameworks that we have to measure impact. And it's really been evolving over the last 20 years.

What's clear is that low quality or low impact projects are unacceptable to investors and a public that's increasingly sophisticated and really motivated by the urgency of the climate crisis.

Liz Bowyer: So, you mentioned the importance of process and accountability. Talk about how that's factored in here.

Lisa Williams: The environmental impact landscape, carbon impact in particular, has been developing over the last several decades and has had to manage a range of challenges to really get to the inflection point that we're at today. So, there's a lot that's still very much uncertain in terms of how we're going to reach net zero. But we can expect that the tools that have been helping us will continue to evolve.

It's really a balance of questioning the existing frameworks and knowing when to incorporate new, emerging science into a process. With that said, I think there's no substitution for rigorous due diligence on both the investment and ESG side in addition to independent third party verification. We're also planning to have direct dialogue with our investment partners and operators on this question of accountability.

Liz Bowyer: So, Lisa, from your seat in asset management at Goldman Sachs, how do nature-based solutions like these fit into broader asset allocation strategies?

Lisa Williams: When we look at timber specifically as a subset of nature-based solutions, there are a range of financial benefits for this real asset exposure. So, global timber consumption continues to increase annually driven by rising urbanization and home building. The rise in demand is set against the constraint supply. And we expect there to be a large supply demand imbalance, particularly within developing economies, which is largely the area where we're expecting to implement this strategy.

In addition to sequestering greenhouse gas emissions, forestry and agriculture investments provide other benefits to an investment portfolio, such as low correlation to other asset classes, and can also be considered as a potential inflation hedge.

Liz Bowyer: So, finally, as companies seek to make even more progress on their sustainability goals, how do you see this space evolving in the years ahead?

Lisa Williams: So, I think increased financial innovation is really one key way that I imagine this space is going to evolve. So, we're going to see more creative structuring as it relates to supporting some emerging business models that best position us to disrupt conventional systems or leverage the best parts of those systems. There's a huge opportunity for market-based solutions, but it's going to require really being able to work with and around some of the more conservative frameworks and bringing together public opportunities for funding, private opportunities, and also kind of the non-profit space to really think about how we balance both environmental impact and return.

I think a second area for innovation is just greater collaboration within industry for companies to actually move towards accomplishing their net zero goals in concert. So, you know, finding ways for there to be more collaboration within industries and across industries. We're all trying to reach a global objective in terms of net zero. But the tradeoffs for each of the stakeholders are different. So, finding ways that we can align incentives where there is such a significant distance in certain instances is a challenge. And it's going to require collaboration and a thoughtful approach for all of the corporates and stakeholders who are aligned with this objective.

Liz Bowyer: Thanks, Lisa.

Lisa Williams: Thanks so much, Liz.