

GOLDMAN SACHS
"TALKS@GS"
INTERVIEW WITH CHIP KAYE
INTERVIEWER: ALISON MASS

ALISON MASS:

Welcome to our continuing series of special episodes of "Talks@GS," where we're going to be speaking with some of the world's greatest investors.

Today my guest is Chip Kaye, who's the CEO of Warburg Pincus. So Chip, I'm so delighted that you're here with us and really looking forward to hearing your investment outlook. So thank you.

CHIP KAYE:

Delighted to do it and thanks so much for the invitation.

ALISON MASS:

So I'd like to go back to the beginning of 2020. Take me back to what you were thinking at the beginning of the pandemic and how you approached opportunities early on

CHIP KAYE:

When I think back over the last six months, not much has really played in ways that many would have thought then. And so I think we still have that view of wanting to be prepared, wanting to certainly be engaged. Huge emphasis on communication, especially around people not only in our firm and our portfolio but also recognizing the uncertainty of the moment.

ALISON MASS:

So what are you focused on now? And I'm particularly curious about your thoughts on investing across asset classes, across industries, and geographies.

CHIP KAYE:

We started off with not a lot of things that were exposed, you know, in terms of highly impacted sectors.

A little bit around the energy space and a little bit around some of, you know, what I call

travel-related aerospace. Not as much in sort of retail consumer facing. But even in that space where we saw it, the bounce that's come has been quite surprising.

And so I'd say, in general, with an idiosyncratic exception or two, the pace of progress over the last quarter has felt much more normal.

ALISON MASS:

So Chip, part of your career journey was spent in India and China. And I'd love your perspective on the future of US-China relations as well as the private equity landscape more broadly throughout Asia.

CHIP KAYE:

You know, spending most of the 1990s in Asia, it was sort of a fascinating perspective to see two places that each in very different ways sort of found their cadence, found a rhythm and changed dramatically.

And when I think about each of them or the region more broadly, how it's changed over the last 25 years is quite remarkable. You know, not just the economic dimension of it but the human part of it. The -- the, you know, uplifting from poverty and rise into -- into a -- a true middle class and -- and how it has changed and shaped those nations has been sort of remarkable to see.

And, you know, clearly we're now experiencing some of the tensions of sort of their success, especially in the case of China. But if I take a step back as an investor, what I would say is if you try to think about the big, large trends or themes or places that you wanted to be invested to have the most -- to have places of scale that had less correlation to each other, you know, I'd say the US and Asia, especially China, are two of the places you'd absolutely want to have presence and want to be seen as an investor.

And our ability to bring those together inside a truly global integrated institution is I think one of the elements of real differentiation for us.

ALISON MASS:

If you look back on your career, what would you say is the greatest investing lesson that you've learned from a particular deal, whether it's a deal that went well or a deal that didn't go as well?

CHIP KAYE:

You know, I'd -- I'd say probably the thing I -- I've learned the most -- and it sort of comes from my time in Asia and some of the really early iconic successes we had in some places -- you know, things like Bharti Telecom in India and elsewhere -- was, you know, not falling into the power of the crowd, the power of momentum.

You know, it was always the thing that John Maynard Keynes quote, but, you know, it's better for reputation to fail conventionally than to succeed unconventionally. And, you know, the power to sort of do what others do, you know, is alluring. And it's certainly safe.

And, you know, the journey that took me to Asia and to occasionally go take on things that may not have been obvious. In some of the case -- you know, the case of Bharti Airtel, I, you know, distinctly, you know, remember, you know, hiring a set of consultants to go do work who told us not to do it.

And, you know, you've got to have confidence in your own judgment and your own ability to make decisions. Not in a way that is, you know, flying by the seat of your pants but recognizing that, you know, investing isn't simply a checklist of things that have to get done.

The core of it is, you know, really most importantly perhaps having a real judgment about

the "who" as much as the "what." Who is it that we're doing business with? And can I create a relationship with them that'll be a long-run constructive one and increase the odds of success for both of us?

And then a real understanding about where, you know, where compelling risk/reward value lies. And that to me, more than anything, I guess to say it differently, I've always believed you have to make it personal. And you've got to be prepared to trust your own instincts and judgments about things.

ALISON MASS:

So you've talked a little bit about what the key to your success as an investor has been. How do you import that wisdom to the next generation of investors at Warburg? And how do you differentiate a average investor from a great investor?

CHIP KAYE:

You know, it's interesting. I've always felt like in terms of the people our industry hires it's, you know, it's -- it's odd in that what we kind of hire for and then ultimately what drives success are very different.

And we tend to hire for more, you know, qualitative skill, analytical capacity. And then ultimately what you want are people that show judgment and can build relationships. A much more qualitative set of skills. And we sort of work with but, you know, hope people sort of jump that chasm, if you will.

And I think that's probably the hardest challenge of all of us. And I think sort of, you know, the challenges we have when we think about how to nurture and train and prepare people sort of for that journey.

I mean, the other part that's important to me is recognize the power of luck. Even prolific

investors, you know, over the arc of a career have a relatively limited number of investments they're probably genuinely making. I.e., the n is small. And so the statistical significance of success, if we all took a step back and thought about it, yeah, we can all like to think we -- it's driven completely by us.

The reality is that fate and luck have a lot to do with it.

ALISON MASS:

I would love to get your perspective on what the S&P 500 will be a year from now. Will it be higher or lower?

CHIP KAYE:

I think my answer is yes. [LAUGHTER]

As I said before, I'm never -- I'm never so sure of our ability to predict things. And I think especially, you know, it's been -- what's been fascinating to me about -- about sort of, you know, following markets has been the concentration that's now at play in something like the S&P 500 with, you know, five stocks now over a quarter of it.

So, I don't know, given -- given my -- given what I feel like has been all of our inability to sort of seeing what's happened over the last six months, the arc of history to me is always forward. And I think those that ever have sort of -- and so I think my -- the trajectory to me is always a positive one.

I find it harder to know and I don't spend a lot of time actually trying to worry too much about the immediate term.

ALISON MASS:

So finally, what advice would you have for someone starting out in investing today that you wish someone would have told you when you were starting out in your career?

CHIP KAYE:

So I think the most important comment to me

about people who are interesting in the space is to know why you want do it.

Not simply because it's popular or it's what your parents or somebody else think. But because there's something about it that has to appeal to you beyond that. And the second thing I think I would say to people is, you know, it's one that you've -- it's -- it's a career you've got to be patient about.

I mean, the -- if you think about an average transaction that we work on, I mean, the -- the lifespan of those things, you know, maybe sometimes they're several years but usually they're five years, sometimes ten. And you're -- so your ability to accumulate enough knowledge and experience over the arc of those just has a more elongated dimension to it.

And, you know, we're all restless. We're all ambitious. We all want to do more. But there's also a -- a part of our business that requires the ability to -- to be a little more patient, be a little more thoughtful. You know, get the opportunity to learn from your own -- you know, the -- the cycle time, if you will, is just a little bit longer to it.

ALISON MASS:

Chip, I really appreciate you sharing your insights with us. This was a great discussion. And stay healthy and stay safe.

CHIP KAYE:

Thank you so much. Be well.

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