BLUEDOT CAPITAL

Guest Snapshot:

Inclusive Growth from Goldman Sachs' Vantage Point

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Blue Dot Capital is a sustainable finance consultancy. We partner with investment management firms, with a primary focus on private markets firms, to support the end-to-end development and execution of ESG and impact investing programs, capabilities, and products.

Since April 2020, Blue Dot has advised investment management firms with $2.5 trillion+ in collective AUM.

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Blue Dot's Guest Snapshot Series

In our Guest Snapshot series, the Blue Dot Capital team, in collaboration with guest experts, unpacks topics such as regulations, geopolitics, and energy policy, and their ramifications for how institutional investors design and execute their sustainable investing strategies and programs.

Snapshot: Inclusive Growth from Goldman Sachs' Vantage Point

For this Snapshot, we are joined by Greg Shell, Partner and Head of Inclusive Growth Strategy at Goldman Sachs Alternatives to discuss how the thesis of inclusive growth translates into investable opportunities for investors.

Background

Goldman Sachs Alternatives is part of Goldman Sachs Asset Management, which delivers investment and advisory services across public and private markets for the world's leading institutions, financial advisors, and individuals. Goldman Sachs has over $2.9 trillion in assets under supervision globally as of June 30, 2024.

The alternatives platform is one of the leading investors in alternatives globally, with $501 billion in assets as of June 30, 2024. The business invests in the full spectrum of alternatives including private equity, growth equity, private credit, real estate, infrastructure, hedge funds, and sustainability.

Goldman Sachs' Inclusive Growth Strategy focuses on Accessible & Innovative Healthcare, Financial Inclusion, Accessible & Affordable Education, and Communities.

Q&A

Q: To kick off, let's indulge in a little bit of nostalgia. You were part of the founding leadership team of Bain Double Impact, which marked the foray of "mainstream" private equity into impact investing.

Share with us your observations about what has changed in the marketplace since the launch of Bain Double Impact Fund 1 in 2016-17 focusing on:

1. **How have Limited Partners (LPs) understood the impact of investing theses and general principles? How is that reflecting in their capital allocation decisions?**
2. **How are management teams responding to working with impact investing deal teams and operating teams on institutionalizing impact in their business models?**

A: I think 10 years ago the market's highest ambition, with respect to impact investing, was twofold. I think, one: demonstrating that you could deliver real measurable impact at scale using investment capital purposefully to deliver solutions to big problems. And if that was done successfully, it would catalyze additional market participation and perhaps lead to a conversation about capitalism itself. So, those were the twin ambitions: to prove that it could be done and then prompt a conversation around it and therefore move closer to the kind of world we all want to live in and where private capital could be used as a positive catalyst.

I think many years later, at some level. the proliferation of impact investing - because there has been a lot of AUM growth - has really tried to just be another product at some level, to meet investors' needs and give them impact investing product choices.

I think on that basis, sentiment, as you know, has kind of turned here. I think in many ways the underlying thesis is still under question. There are still many investors who are on the sidelines or who still have a level of skepticism, maybe even cynicism, about whether this is the right way to think about investing.

I'll tell you who has been super clear about the direction of things: companies and consumers. And so, when you ask the question about management teams, I think there is a significant embrace of impact investing principles underway among companies, where there is actually a preference for capital that understands and aims to advance the business model commercially. Management teams deeply understand who they want to be partnered with. That is something that has been interesting to observe. So that is probably how I've seen and experienced the evolution of the marketplace.

Q: Let's double click on, "While many investors still assume that accessing the inclusive growth space requires a concessionary approach, we have conviction that market-rate returns are not only possible to achieve for inclusive growth, but that the strategy is actually advantaged relative to more generalist strategies." In what ways is the Inclusive Growth Strategy better positioned than more generalist strategies?

A: Yes, this is especially important because the way that you really need to deliver performance and returns in recent years is through operational excellence, and I would argue that the best way to achieve that is by driving growth.

I think impact investors have the enviable circumstance of trying to address big societal problems. So, in general, these are big white space opportunities, and if you're a good investor, you can find your way into companies and industries that are being transformed. And that is a strong playbook for delivering premium returns, whereas if you're a generalist and you're just looking for opportunities to reduce operating costs and to leverage companies significantly, that model has gotten to be harder against the current macro and monetary policy background.

What we're looking to do is to deliver value across a wider range of stakeholders, especially creating value at the level of the customer. When you're doing that, it does set the table for the opportunity set to grow more quickly. So, that is **fundamentally what underlies our impact thesis: identify opportunities where significant, at-scale transformation is possible, stemming from the big opportunity to drive solutions toward big problems.**

Q: Blue Dot's advisory and work with General Partners (GPs) straddle the spectrum of ESG integration to impact investing. It would be helpful for fellow investment and management team members of private markets platforms in the Blue Dot network to hear from you about how and why impact management might be accretive to value creation.

A: Love this question. I think in the past, when private equity was less competitive, the amount of value that you needed to add beyond financing was potentially not as important to the investment process. It was mostly about identifying undervalued assets and all the rest.

Today, in order to help deliver growth and market share gain, reduce churn, enhance ability to attract the most talented employees, and so forth, quantifying and describing the impact that you have and the outcomes that you're driving are key. A company's ability to clearly articulate its impact for its customers and end users in competitive spaces is necessary. Impact investors actually have a real advantage here because we think about that quite a lot. And I think regular investors in many ways are perhaps years behind us. **For many investors, measuring is beside the point**. **For us as impact investors, measurement of outcomes is almost the entire point.** And if you're not able to deliver a clear, compelling answer for why what you do matters, or is effective, or counts, or is delivering real value, there is a question out there, "What are you doing? And why would you run away from that?"

So, I really like the way impact investors position what we can do. And the best investors will always make it about the companies and not about themselves. So, we're not measuring impact as a means to engage in self-aggrandizement. It's not "Look what the fund did."; it's "Look at to **what degree we're able to acknowledge the impact potential and then help companies grow into the best versions of themselves." That's what we're really after and I think that is a very compelling proposition that GPs with competitive and growing franchisees and footprints would want to offer.**

Guest Author:
Greg Shell, Partner and Head of Inclusive Growth Strategy,
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