Request For Information

Goldman Sachs

Asset Management

NYCRS

Fossil Fuel Divestment RFI

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NYC Employees' Retirement System

Contact Information

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A. General Information

1. Name and business address of responding party (if responding on behalf of a firm or organization, provide for that entity)

The Goldman Sachs Group, Inc.

2. Website address, if available

www.goldmansachs.com

3. Name, address, email address and phone number for single point of contact for all communications.

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4. Please briefly describe your occupational and professional status and background, expertise related to the issues in this RFI and any other relevant background information.

Lisa Rotenberg is a Managing Director and Senior Relationship Manager at Goldman Sachs, where she has worked for 24 years. She has served as the co-head of the public fund business, the co-head of the corporate fund business, and the global head of Consultant Relations in Goldman Sachs Asset Management. She is currently a senior leader on the Public Funds team. Lisa joined Goldman Sachs as a vice president in 1994 and was named managing director in 2003. Prior to joining the firm, Lisa served as Minnesota's deputy state auditor representing the state auditor in all plan sponsor decisions related to the Minnesota State Board of Investment. She also served as Minnesota's chief deputy commerce commissioner with oversight responsibility for the securities, insurance, banking and real estate industries. Prior to joining the Minnesota Department of Commerce, Lisa served as a special assistant attorney general for the State of Minnesota. She previously served on the Minnesota Governor's Task Force on Small Business Capital Formation. Lisa earned an AB from Harvard University and a JD from the University of Minnesota Law School, where she previously served on the Board of Advisors.

Lisa has strategically addressed carbon risk, and helped to develop innovative ways to implement low emissions investing for a prominent United States Pension Fund.

5. Please state whether the responder is able to provide the Investment Analysis Services, or a portion of such work, including legal fiduciary analysis services, and is likely to respond to an RFP that includes Investment Analysis Services. If yes, please respond to the questions in Attachment 1.

Goldman Sachs Asset Management is able to provide Investment Analysis Services and is likely to respond to an RFP.

B. Information Requested Regarding RFP and Investment Analysis Services

(Responders must address one or more of the following questions). Responders are encouraged to respond with other considerations and approaches not covered herein that would achieve the Comptroller's and Systems' purpose and objectives regarding potential prudent divestment strategies.

Executive Summary

We appreciate the opportunity to respond to this this Request for Information ("RFI"), designed to gather insights and knowledge on how to develop and structure a Request for Proposals ("RFP") for services to evaluate and determine a prudent strategy for potential divestment and exclusion of securities issued by companies owning fossil fuel reserves.

We believe that a comprehensive RFP would include several components which may help position The Office of the New York City Comptroller ("Comptroller") to best meet its objectives. We believe an RFP should seek to identify the following capabilities:

- Previous experience working with other public pension plans to design and implement efficient, climate-conscious investment strategies
- Ability to flexibly work with the different relevant policy indices and benchmarks (e.g., to not be locked in to one provider)
- Data capabilities:
  - Experience in using a variety of ESG and carbon/climate-centric data sets from different vendors (this experience is relevant in order to understand the idiosyncrasies of each data set, their relative benefits/disadvantages as compared to other data, how to properly clean/map each data set to securities, and the ways in which these data sets may be combined to design an optimal solution)
  - Capacity to develop and refine analysis within and across traditional and non-traditional data (for example, by using alternative data sources such as climate-focused non-profits)
- The ability to integrate the design and data component of the analysis with portfolio construction, risk management and implementation
- Ability to design and manage a strategy in an optimized efficient manner, minimizing additional risk or volatility relative to pursuit of divestment objective (i.e., sensitive to governing benchmarks and existing portfolio investment objectives)
- Given the evolving nature of data and insights, the ability to refine and iterate in both the design and implementation of an on-going solution

We believe that an RFP that focuses on understanding these capabilities, in combination with understanding the breadth and depth of resources devoted to ESG and climate-related issues within an organization (potentially as measured by number of dedicated full-time professionals focused on ESG and climate-related issues), would enable NYC to find a partner to best help achieve your objectives. We appreciate the opportunity to be included in this RFI, and would be pleased to further elaborate on any of these points as is helpful.

RFP Structure for Investment Analysis Services

1. **What specific areas, factors, risks and impacts should an RFP consider in order enable selection of a provider or providers that can best conduct comprehensive and in-depth Investment Analysis Services?**

   Please see the Executive Summary, above.

2. **What other important questions should be included in an RFP that includes Investment Analysis Services?**

   Please see the Executive Summary, above.

3. **What information and format do you believe would be useful for soliciting and evaluating Investment Analysis Services?**

   Please see the Executive Summary, above.

4. **What criteria, experience and qualifications for services providers should be considered for Investment Analysis Services?**

   Please see the Executive Summary, above.

Approaches to Investment Analysis Services

5. **What do you believe are best approaches to:**

   a. **Determining the scope of companies, including further defining fossil fuel reserve owners, appropriate for divestment.**

      Climate change is a challenging investment question – navigating the certainty of change and uncertainty of its specifics requires a considered portfolio-wide approach: how can an investor mitigate left tail risk from the assets that may be the most significantly negatively impacted by climate change, seek to drive environmental performance through best practices in climate change competencies across the bulk of assets, and invest in potential solutions that may benefit from – and/or help drive – a transition to a lower carbon economy.

      When considering the issues fossil fuels and divestment, we focus predominantly on addressing and mitigating potential left tail risks. We observe that many investors choose to initially focus on the implications for public equities and fixed income – and frequently the passive portions of these portfolios – although there are broader portfolio implications which may be considered as well. Historically, some investors took simplistic exclusionary approaches to emissions or reserves; others struggled to find consensus on implementation. In recent years, we have seen the emergence of more sophisticated and nuanced methods of determining the scope of companies appropriate for divestment or underweighting, and a commensurate range of approaches to then reduce or eliminate these exposures.

In our work with other investors focused on this topic, we have seen many choose to meaningfully reduce a portfolios' exposure to emissions or reserves in an efficient risk managed way that stays grounded in a policy benchmark.

Any ultimate approach involves an iterative process with an investor and broader stakeholders in order to arrive at a solution that fits with the investor's financial context, policy benchmarks, governance structures, and fiduciary duty, while also being highly cognizant of the climate characteristics of the investment portfolio. Below we outline four potential approaches for determining the scope of companies appropriate for divestment or underweighting:

1. **Full Divestment:**
    - The most common approach to divestment is to eliminate investments in companies identified as part of the Carbon Underground 200, a proprietary list of the top 100 oil and gas and top 100 coal companies based on emissions embedded in reserves
    - This approach has several potential benefits: it is relatively straightforward to implement, clearly accomplishes divestment objectives, reduces exposure to potentially stranded assets, and places the emissions responsibilities with energy producing companies. It also, however, has several drawbacks: it only addresses environmental impact and risk in one sector of the economy (energy), has the potential for significant underperformance if the energy sector lags the broader equity market, may result in tracking error which is usually not targeted and may vary uncontrollably over time, and is a static exclusion which does not recognize changing business models.
2. **Optimized Full Divestment:**
    - This approach excludes the companies identified in Full Divestment, then optimizes the weights of the remaining securities in the given universe to minimize tracking error
    - This approach has the same potential benefits as full divestment, but reduces the magnitude of the tracking error implications for a portfolio, and may reduce the potential for significant underperformance over time.
3. **Optimized Reduction of Reserves:**
    - This approach first excludes negative environmental outliers such as coal and tar sands (given their high emissions intensity) and companies with severe ESG controversies. The resultant portfolio is then optimized to minimize tracking error for a given level of reduction in embedded emissions (e.g. the imputed emissions given the size and carbon intensity of a company's fossil fuel reserves). We believe it may be prudent to use embedded emissions rather than size of reserves, in order to capture the 'dirtiness of reserves' (e.g. gas vs oil). Portfolios may be built at different levels of embedded emissions reduction to develop a frontier of reserve reduction vs. tacking error budget.
    - This approach still eliminates the most fossil fuel intensive companies, while reducing the embedded emissions across the rest of a portfolio in a more risk-managed manner.
4. **Optimized Reduction of Current Emissions:**

There is no guarantee that these objectives will be met.

- This approach focuses on current emissions, as opposed to embedded emissions (fossil fuel reserves) and seeks to underweight stock ownership in some of the largest greenhouse gas emitters based on emissions data while staying within defined risk tolerances.
- This approach has several potential benefits: it places the emissions responsibilities with those companies who use/burn fossil fuels, addresses environmental impact and risk in every sector of the economy, may achieve meaningful emissions intensity reduction with minimal tracking error, maintains benchmark awareness consistent with most approaches to passive equities, is dynamic and recognizes emissions intensity increases / decreases at the corporate level, and integrates with corporate engagement and proxy voting efforts. However it does not have the benefit of a clear-cut exclusion of fossil fuel companies, and requires a more nuanced approach to messaging.

We also believe there may be additional approaches which look beyond both current emissions and future emissions (i.e., reserves) to understand in a more nuanced ways the business models, momentum, and trajectory of various fossil fuel companies as it comes to their stance towards and preparedness for a lower carbon economy. This work would involve an analysis to develop a custom approach to identify the worst fossil fuel companies to include in an enhanced divestment approach. This approach may look at some of the following components of fossil fuel companies:

- Business mix: How dirty is the mix of fossil fuel reserves?
- Business operations: How dirty are the business operations?
- Trajectory: Is the company improving its business mix and operations over time?
- Management: To what extent is a corporation lobbying for or against climate and energy policy?
- Controversies: Does the company have severe environmental, social, or governance controversies?

In sum, we believe there are a variety of ways to determine the scope of companies appropriate for divestment, and from this analysis, to determine the various approaches an investor may choose to take to the broad issue of divestment. We believe the ability to do this work well requires several key characteristics in a potential partner (as detailed in the executive summary), including: the ability to flexibly work with the different relevant policy indices and benchmarks (e.g. to not be locked in to one provider); experience in using a variety of ESG and carbon/climate-centric data sets from different vendors; the ability to integrate the design and data component of the analysis with portfolio construction, risk management and implementation; and the ability to refine and iterate in both the design and implementation of an on-going solution over time.

b. Determining the timetable and specific milestones within a five year period appropriate for divestment.

c. Assessing appropriate divestment approaches based on asset classes, strategies and styles.

d. **Analyzing the investment risks posed by climate change and fossil fuel reserve owners to the Systems' portfolios (including scenario analysis).**

e. **Analyzing potential investment impacts on the Systems' portfolios of divesting from the securities of fossil fuel reserve owners, including impacts on return, risk, diversification and cost (including tracking error).**

f. **Assessing potential alternative investments available to the Systems that have risk and return characteristics equivalent to the securities that may be divested.**

6. **Are there any precedents that can help guide the approach to analyzing the impacts of and determining a prudent strategy for divesting from fossil fuel reserve owners?**

7. **What are ways to address the costs of externalities in investment portfolios that can help mitigate risk?**

8. **How do you view the extent to which the market currently prices in climate change risk and, specifically, the economic and investment risks related to the carbon intensive businesses such as fossil fuel reserve owners?**

9. **How could divestment be effective in influencing fossil fuel reserve owners to take steps toward addressing carbon risk?**

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Business Principles

1. Our clients' interests always come first. Our experience shows that if we serve our clients well, our own success will follow.

2. Our assets are our people, capital and reputation. If any of these is ever diminished, the last is the most difficult to restore. We are dedicated to complying fully with the letter and spirit of the laws, rules and ethical principles that govern us. Our continued success depends upon unswerving adherence to this standard.

3. Our goal is to provide superior returns to our shareholders. Profitability is critical to achieving superior returns, building our capital, and attracting and keeping our best people. Significant employee stock ownership aligns the interests of our employees and our shareholders.

4. We take great pride in the professional quality of our work. We have an uncompromising determination to achieve excellence in everything we undertake. Though we may be involved in a wide variety and heavy volume of activity, we would, if it came to a choice, rather be best than biggest.

5. We stress creativity and imagination in everything we do. While recognizing that the old way may still be the best way, we constantly strive to find a better solution to a client's problems. We pride ourselves on having pioneered many of the practices and techniques that have become standard in the industry.

6. We make an unusual effort to identify and recruit the very best person for every job. Although our activities are measured in billions of dollars, we select our people one by one. In a service business, we know that without the best people, we cannot be the best firm.

7. We offer our people the opportunity to move ahead more rapidly than is possible at most other places. Advancement depends on merit and we have yet to find the limits to the responsibility our best people are able to assume. For us to be successful, our men and women must reflect the diversity of the communities and cultures in which we operate. This means we must attract, retain and motivate people from many backgrounds and perspectives. Being diverse is not optional; it is what we must be.

8. We stress teamwork in everything we do. While individual creativity is always encouraged, we have found that team effort often produces the best results. We have no room for those who put their personal interests ahead of the interests of the Firm and its clients.

9. The dedication of our people to the Firm and the intense effort they give their jobs are greater than one finds in most other organizations. We think that this is an important part of our success.

10. We consider our size an asset that we try hard to preserve. We want to be big enough to undertake the largest project that any of our clients could contemplate, yet small enough to maintain the loyalty, the intimacy and the esprit de corps that we all treasure and that contribute greatly to our success.

11. We constantly strive to anticipate the rapidly changing needs of our clients and to develop new services to meet those needs. We know that the world of finance will not stand still and that complacency can lead to extinction.

12. We regularly receive confidential information as part of our normal client relationships. To breach a confidence or to use confidential information improperly or carelessly would be unthinkable.

13. Our business is highly competitive, and we aggressively seek to expand our client relationships. However, we must always be fair competitors and must never denigrate other firms.

14. Integrity and honesty are at the heart of our business. We expect our people to maintain high ethical standards in everything they do, both in their work for the firm and in their personal lives.