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A CRAIN FAMILY BRAND

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UPS investment staff moved to Goldman Sachs Asset Management. Here's how it went.

By ROB KOZLOWSKI

Ernie Caballero didn't know how good working for a giant money manager could be. In September, the 35 year UPS veteran and his team of pension fund investment professionals in Atlanta packed their bags and headed seven miles south to their new offices at Goldman Sachs Asset Management to complete a historic OCIO deal.

Their primary responsibilities didn't change. Caballero, until September the chief investment officer of $41.5 billion in defined benefit plan assets overseen by United Parcel Service Inc., is still overseeing those assets as a Goldman Sachs employee.

And his team is still working to manage the company's pension plan assets to their liabilities and ensure the continued distribution of benefit payments for tens of thousands of UPS retirees and beneficiaries for decades to come.

"Leading UPS, I didn't realize how good it could be, to be honest," Caballero said. "And I'm not saying that because I work at Goldman, but it's just the opportunity set is so much broader, and really, you're working with a lot of people that think the same way. The possibilities are just broader. They're global. There's a lot of support, a lot of research, a lot of everything that you just have at your fingertips that you never had before."

Goldman Sachs

Ernie Caballero, managing director, asset management at Goldman Sachs Asset Management

Caballero's new position is the result of UPS signing a deal at the beginning of 2024 for Goldman Sachs Asset Management to become the new outsourced chief investment officer of the shipping giant's U.S. pension plans. The OCIO model has evolved over the last 20 years to become a massively popular choice among defined benefit and defined contribution plans, endowments and foundations and other institutions as a way to have their assets professionally managed.

As of Dec. 31, Goldman Sachs Asset Management had $3.1 trillion in assets under management. Multi-asset solutions AUM totaled $380.5 billion as of that date, of which $311.8 billion consisted of OCIO AUM.

While traditionally it has been small- and midsize DB plans that have embraced the OCIO model, the last several years have seen the emergence of large-scale deals involving tens of billions of dollars, which often include entire liftouts of existing investment teams.

The first widely publicized such megadeal was British Airways, Harmondsworth, England, in 2021 appointing BlackRock as outsourced CIO for £21.5 billion ($26.6 billion) in assets in two defined benefit plans.

GSAM's first OCIO client came aboard in 1999 within the manager's multi-asset solutions division, which launched four years earlier, and really took hold following the global financial crisis and the subsequent underfunding crisis for corporate pension funds, said Gregory Calnon, partner, co-head of public investing at Goldman Sachs Asset Management.

"I think enough CFOs and treasurers were in place at these corporations that they had an acknowledgement that there needed to be a different governance structure, a different risk management focus, and that aligned with our expertise within Goldman," Calnon said.

Calnon said when the multi-asset solutions team began expanding its OCIO capabilities in the early 2000s, their thesis was really to focus on customization and partnership with clients.

"To gain scale quickly, many early OCIO offerings were fund of funds structures, with little ability to address specific client needs. We took the opposite approach. We have always believed that in order for us to really help clients achieve the objectives that they want, we have to be incredibly customized for the problem they were solving. If we did that well, we could scale the business," Calnon said.

In order to implement that level of customization over the years, Goldman Sachs has added many professionals such as actuaries with the skills and experience to work with potential OCIO clients such as pension funds, nonprofit organizations and insurance companies.

"We invested in our investing infrastructure such that they were able to model liabilities in a different way for different types of clients, and so we kept adding capabilities and talent and skills to partner with clients where we thought that there would be a good match," Calnon said.

"The other obvious thing to us is, you know, the name OCIO is kind of a misnomer, right? It sort of implies you hand the keys over. You check in every now and again, but the client has somehow or other absolved themselves of some responsibility," Calnon said. "We don't believe in that at all either. It's very much a partnership with our clients. And in the same way that we'll meet with them, we'll meet them where they want to be from a customization standpoint, we meet them where they want to be from a governance perspective as well."

That buildout of a deep customizable OCIO business paid off in 2023 with GSAM's first megadeal when BAE Systems, London, outsourced the management of about £23 billion ($28.5 billion) in U.K. pension fund assets, which also saw the defense and aerospace company's in-house team at BAE Systems Pension Funds Investment Management make the move to GSAM.

That first staggeringly large OCIO win and the liftout of BAE System's investment team reflected GSAM's growing emphasis on an increasingly interesting part of the market, said Christopher Keogh, GSAM's global co-head, institutional client business. That market consists of about 50 corporate pension plans, both in the U.S. and in Europe, oftentimes closed or frozen with funding ratios of 90% or above and holding $20 billion or more in assets, Keogh said.

"There's clearly an increasing interest from CFOs and treasurers to look at what is the best way to service those plans and maintain robust fiduciary duty at the same time, making sure that it's in the best place it can be," Keogh said.

Part of that is recognizing that the highly sophisticated and exceptional in-house investment staffs that have been managing these corporate plans don't necessarily have the core investment and risk management experience and resources required as the plans move further into their derisking glidepaths as they become fully funded.

That means a greater share of assets go into fixed income and away from growth-oriented assets, and less for some team members to do as that process continues.

"There's a perception in the marketplace that we take on these employees as like a cost of doing business. Nothing could be further from the truth," Keogh said. "Our model from the beginning has been if we take the whole team, the transition is likely to be much smoother. We're going to have much better knowledge of the idiosyncrasies and complexities of that plan and its needs. We're going to therefore help fulfill the fiduciary obligation that still sits at the corporate level in a way that's much more profound and well managed than if we didn't have those teams."

"And then we believe potentially — and there's arrogance in this — but we really believe that the growth for people's careers having come into Goldman Sachs is robust," he said. "They will start inside Goldman Sachs, working on the plan that they have always been working on, but the growth opportunities for people's careers are immense, from the CIO level down to someone who's just been working for three years as an investor within the plan."

That means being able to develop the talent acquired through the OCIO deals. One example comes from the recently acquired UPS team, said Alexandra Wilson-Elizondo, partner, co-head and co-CIO of multi-asset solutions at GSAM.

"One of the individuals that came in with the UPS mandate has a strong background in credit," Wilson-Elizondo said. "In our dynamic asset allocation process, we have an asset class group that looks at relative value across credit. I highlighted to our head of research (that) we would be amiss to not have this person be part of that asset class group, to be impacting more portfolios than the one that they just currently sit on. This person is now co-running the asset class group. Their expertise has been a tremendous addition. It's impacting other parts of the business such as our sovereign wealth business where our lower-risk mandates invest heavily across the credit complex."

The opportunities that GSAM presents for his investment staff are part of the appeal for Ernie Caballero in leading his team in the new setting at Goldman Sachs Asset Management, where he now has the title of managing director, asset management.

He and his staff joined GSAM on Sept. 1, almost exactly 35 years after he joined UPS, where he served in a variety of roles including global treasury director, vice president of strategy for emerging markets and CFO, Europe region, before becoming CIO of the pension fund in March 2018.

Caballero was particularly struck by how extremely well the transition to GSAM was managed. "It's like an M&A transaction. You're buying something. You have to integrate it, for lack of a better term, but if everybody's growing in the same direction with the same set of objectives, that really makes the transition, honestly, a nonevent, and that's what it was for us," Caballero said.

Cabarello worked on various M&A deals during his years on the finance side at UPS and he compared the OCIO transition to those types of transitions.

Caballero said it's rare to see such a really good transition with "a lot of delicacy in it" given the complexity of transferring assets from multiple pension plans that are both open and frozen as well as moving the investment staff.

Now that the assets are being managed at GSAM, Caballero said they can now do what they were doing at UPS, but in a "much bigger way, with a broader scale and a global reach."

"We were a pretty sizable team (for a pension fund), but still, we (were) only a team of 22 including me when we moved over. You have limitations there," he said. He said his team has access to resources at Goldman Sachs they never would have had at UPS.

While the access to the global scale that GSAM provides has brought about significant benefits for the UPS investment team, the portfolio has brought GSAM its own benefits.

Timothy Braude, partner, co-head of multi-asset solutions at GSAM, said that integrating the UPS portfolio brought about two things that people in the organization got very excited about.

"Number one is they've got a very interesting and innovative (private markets) portfolio. So just being able to sort of work through that and have them engage with our external investment group, our (private markets) team has been really, really interesting. They (also) had some interesting co-investments in the portfolio. So there's a few things that have been quite interesting on that side of things," Braude said.

Aside from strategies already utilized within the UPS portfolio, Braude said his team has always been focused on developing innovative solutions for clients, which they're integrating into the UPS portfolio.

He said GSAM ask: "How do we ensure that we are finding alternative sources of return and diversifying what we believe are the two most consistent return drivers, which are the market cap and rates?"

The relationship is proving to be symbiotic for both the UPS portfolio and GSAM.

"We've got a number of alternative sources that we put in our portfolios," Braude said. "We do a bunch of quantitative downside risk hedging, and they have a pretty interesting portfolio in those two areas."

"Being able to integrate that into our platform, especially given some of the research that we were already doing on some innovative alternative risk premium strategies, it's just super complementary, and in some ways accelerated the research that we were already doing," Braude added.

As of Dec. 31, the actual allocation of UPS' U.S. pension plans was 47.2% fixed income (down from 58.9% the year before), 16.8% equities (down from 23.3%), 15.6% private equity/private debt/other (up from 14.2%), 13.7% cash (up from 2.3%), 6.4% real estate (up from 5.9%), 4.9% hedge funds (down from 9.1%) and -4.6% derivatives (up from -13.7%), according to the company's most recent 10-K filing.