

Customized Solutions

Speakers: Merrie Zhang (Managing Director, Head of Client Portfolio Management and Head of Product Strategy)

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Transcript

00:00:00 – 00:00:21 **Merrie Zhang**

Nearly every aspect of our lives is tailored to the preferences of the consumer, and investing is no different. Investors today should have the ability to customize their portfolios in line with their goals and preferences. This is what we aim to deliver at Goldman Sachs Asset Management.

00:00:23 – 00:01:02 **Merrie Zhang**

I'm Merrie Zhang and I lead client portfolio management for our direct indexing business. Personalized investing has experienced tremendous growth over the past few years, and we are proud to be an industry leader in this space. Our direct indexing strategy was originally created in 1999 as a solution for Goldman Sachs partners, and ever since then we've worked closely with advisors and their HNW and UHNW clients to build personalized portfolios that help them meet their investing goals. Today, we manage over \$200Bn in assets across over 65,000 accounts.

00:01:05 – 00:02:25 **Merrie Zhang**

Our direct indexing portfolios typically have 3 main objectives: number 1: deliver broad equity market exposure. We believe a primary driver of investor wealth accumulation is achieving diversified equity market exposure, allowing wealth to grow and compound over time as the market appreciates. Number 2: provide opportunities to keep more of what you earn through tax deferral. It's not just what you earn, it's what you keep that counts. And one of the key tax management opportunities we offer is systematic and dynamic tax loss harvesting throughout the year. We aim to realize capital losses that our investors can use to offset realized capital gains from other investments, generating tax deferral. This allows investors to keep more dollars invested to compound even more wealth over time. Number 3: customize to your preferences. We offer customization based on the unique investor situation. This can include accounting for an investor's wealth concentration in a particular stock or sector, or aligning their investments to their beliefs and values. We can also help clients tax-efficiently transition existing stocks or pooled vehicles, providing diversification while managing tax costs.

[Disclosure] The example provided does not reflect the deduction of investment advisory fees and expenses which would reduce an investor's return. Please be advised that since this example is gross of fees and expenses the compounding effect of an investment manager's fees are not taken into consideration and the deduction of such fees would have a significant impact on the returns.

00:02:29 – 00:04:01 Merrie Zhang

Our portfolios are implemented as separately managed accounts, or SMAs. Each client has their own SMA. For each account, we build a diversified portfolio by investing in a few hundred individual companies to provide broad equity market exposure.

Throughout the year, as these companies go up and down in price, we take advantage of this volatility and trade each portfolio to harvest capital losses. When a company in your portfolio is trading at a loss compared to its purchase price, we may sell that stock and buy a replacement stock. This aims to ensure the portfolio continues to maintain equity market exposure while we capture a realized loss that the client may be able to use to offset other realized capital gains. Realized capital gains can come from many sources such as from selling appreciated investments or mutual fund capital gain distributions. Our loss harvesting may help investors offset these gains, providing potential tax efficiencies.

To achieve this scale and deliver optimal outcomes for each account, we leverage technology and a systematic investment process. Our experienced team of portfolio managers provides oversight, reviewing trades before execution. Our team is also continuously conducting research to try to enhance our investment process, striving to deliver even better client outcomes.

[Disclosure] Goldman Sachs does not provide accounting, tax or legal advice. Please see additional disclosures at the end of this presentation.

00:04:03 – 00:05:33 Merrie Zhang

Customization is at the core of what we do. There are so many ways that our clients customize their portfolios with us, but here are some of the main ones:

Number one: tax management. Clients have different entry points into the market and our tax management process accounts for every client's specific positions, tax lots, and cost basis within their SMA. Additionally, portfolio transitions are also customized. If a client has existing equity positions, we can analyze the positions and propose thoughtful ways that we can take those positions and transition to a portfolio that's more in line with their desired exposure. For example, if the client has a basket of concentrated and appreciated stocks in their brokerage account, we can help move them efficiently towards a more diversified portfolio.

We can also provide customized risk management solutions. For instance, if a client has wealth concentrated in one sector or company, such as an executive at a financial services company, we can build a portfolio that accounts for their concentration by not investing more in that name or sector.

We also have clients that want their investments to reflect their personal beliefs and values. For example, if they don't want to invest in companies that are involved in oil and gas exploration in the Arctic, or they don't want to invest in companies that have revenue generated from private prisons, we can seek to tailor portfolios around those preferences.

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00:05:34 – 00:06:09 Merrie Zhang

Our experienced team of portfolio managers are responsible for our decades long leading track record and this team has navigated through various market cycles together, making our team differentiated in the industry.

Over the past two decades, we've continually invested in and evolved our platform. There's always more we can deliver for our clients, and we have a relentless focus on enhancing our platform to deliver even stronger investment performance and more customization capabilities, all packaged in a seamless white glove client experience.

Risk Considerations and Disclosures

Equity investments are subject to market risk, which means that the value of the securities in which it invests may go up or down in response to the prospects of individual companies, particular sectors and/or general economic conditions. Different investment styles (e.g., “growth” and “value”) tend to shift in and out of favor, and, at times, the strategy may underperform other strategies that invest in similar asset classes. The market capitalization of a company may also involve greater risks (e.g. “small” or “mid” cap companies) than those associated with larger, more established companies and may be subject to more abrupt or erratic price movements, in addition to lower liquidity.

Tax Considerations

The strategy may result in adverse tax consequences for the client including, but not limited to, wash sales. Under the wash sale rules, a loss from the sale of shares of stock or securities is disallowed if the taxpayer acquires, or enters into a contract or option to acquire, “substantially identical” stock or securities within 30 days before or after the sale. GSAM may intentionally engage in wash sales when it believes that the trades are beneficial for the client to do so. In addition, GSAM may be unable to avoid wash sales in certain circumstances given uncertainty around the “substantially identical” standard. For example, there is considerable uncertainty around applying a “substantial overlap test” to evaluate whether certain mutual funds or equity baskets are “substantially identical” to each other, the treatment of unrelated issuers engaged in a merger or acquisition, the treatment of convertible preferred equity and/or the treatment of contracts or options to acquire stock or securities. In addition, data used for portfolio management may be incomplete, will be limited to information regarding the strategy account, and will not include information regarding positions held or transactions executed outside of the strategy account including other accounts managed by Goldman Sachs or its affiliates. Transactions in two or more accounts that are deemed to be related under the relevant tax rules and regulations (“related accounts”) may be subject to the wash sales rules that disallow or defer the recognition of losses. GSAM will generally only consider positions and transactions in your Account on a standalone basis when executing the strategy. If you instruct us to treat certain accounts as related for tax purposes, GSAM may take this instruction into account in its investment management process in order to reduce wash sales across the related accounts. GSAM relies on the information provided by clients or their advisers with respect to a client’s related accounts in order to limit the likelihood of wash sales from trades executed in the strategy account and related accounts. As a result, portfolio management decisions may be based on incomplete information. To the extent that one or more accounts are managed as related for tax purposes, GSAM may limit trading across those accounts to avoid wash sales which may result in less loss harvesting for the accounts. The US tax code allows capital losses to be carried forward indefinitely until portfolio is bequeathed. The cost basis of a tax loss harvesting portfolio is driven down due to the realization of capital losses, creating a contingent tax liability. For investors who will eventually bequest their tax loss harvesting portfolio to charity or to their heirs upon death, taxes on the unrealized gains are generally avoided. However, if the tax loss harvesting portfolio is liquidated, the investor will pay taxes on the realized gains upon liquidation.

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