29 MAR 2023 Jennifer Grybowski

Goldman Sachs AM to focus on securitized and income-oriented ETFs

Firm talks muni bonds, ESG and active management

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Goldman Sachs Asset Management is looking to bolster it muni bond ETF line-up in the wake of the launch of its initial product in the space just two weeks ago.

The $2.6trn New York-based firm told With Intelligence part of its motivation to add the Goldman Sachs Community Municipal Bond ETF (GMUN) was to plug a gap in its fixed-income ETF roster as well as provide clients access to its muni portfolio managers in a vehicle other than mutual funds and SMAs.

“Our client followership in that business is incredibly strong, so it was important for us to have the muni capability,” said Brendan McCarthy, head of ETF specialists and capital markets at GSAM.

Overall investor demand into the retail space due to the higher interest rate environment was also a consideration. While muni mutual funds saw massive outflows of $123.4bn over the past year, ETFs raked in $27bn, according to Morningstar Direct.

“This is a growing percentage of the overall asset class,” said Alexa Gordon, GSAM municipal bond portfolio manager. “I think people are excited about earning above the 3%, which ends up being 5.5% or 6% on a taxable basis on high-grade munis.”

The firm is targeting both the retail and private wealth channels, relying on the sales teams for each of those businesses, as well as a dedicated ETF specialist team integrated into all distribution channels.

Demand for active management

The manager now has 33 ETFs, nine of them fixed-income, with more in the hopper, including a passively-managed second ultra-short ETF in December.

Goldman Sachs fixed income ETFs, flows ($m)

Source: Morningstar Direct, end of February

While the new muni ETF is passive, the firm is interested in adding actively managed muni ETFs as well as active ETFS beyond the muni space based on client demand, McCarthy sad.

“What the ETF market has proven is that clients want choice, whether that’s index or active, and as we think about our line-up of equity and fixed income, what we’re being asked for is more active products, more differentiated products,” he says.

To build out its fixed-income ETF lineup, GSAM is looking at ETFs in the securitized space and on the equity side it is considering adding income-oriented ETFs.

McCarthy contends that although muni ETF is index-based, PMs must actively source inventory and to manage liquidity—the same skills they would employ in an actively managed ETF.

“All of that lends itself very well to being able to manage this rules-based index and of course any other active fund that would come,” he said.

Navigating ESG considerations

The new muni ETF incorporates ESG considerations through a series of screens to target municipal projects for education, healthcare, clean energy and other community-friendly initiatives.

That makes the fund unique not only at GSAM, as none of its existing muni mutual funds have ESG considerations, but in the muni category itself, with only 19 funds considered to be sustainable by prospectus according to Morningstar Direct.

However, Gordon is careful to avoid the ESG moniker, and stresses the firm is not labeling the ETF as an ESG fund.

“We have ESG considerations in there, but this is a broad-market, investment-grade, 1- to 15-year-exposure fund with a higher allocation to green, social and sustainability,” she said, noting that because muni bonds tend to finance community-building projects, positive environmental or social outcomes are often inherent for the underlying asset class.

All options are on the table as to whether future muni ETFs incorporate ESG considerations.

“We’re definitely using this as a test case to see both where the demand is and to develop our processes and build out our capabilities,” Gordon said, adding that unless client demand surges, GSAM won’t be launching new ESG ETFs in the immediate future.

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