THE FUTURE OF ASSET MANAGEMENT

Announcer 00:00

Please welcome the panel on the future of asset management, moderated by CEO of the Milken Institute, Richard Ditizio.

Richard Ditizio 00:31

Good afternoon, everyone. Thank you for joining us. As I was thinking about putting this panel together compared to last year's asset management panel, I was thinking, God, if only something interesting had happened in financial markets in the last 12 months. So we hear a lot about this unprecedented uncertainty. Not sure how unprecedented it is, but we did see a contraction in US economic activity reported last week, a potential marker for slower US and global growth. And at least in the short term, as we await the full impact of tariffs on trade policy, potentially to trigger prices—forecasters, along with CEOs of many companies, have scrambled to adjust, often saying that there's too much uncertainty even to put a forecast together. And all of this reflected in the most recent Federal Reserve Beige Book report, where nine of the 14 regions in the US showed no growth or just modest decline in economic activity, we also saw a significant sell off after liberation day in in seven days, the S&P dropped 12%, lot of coverage on that. It's also recovered entirely, not so much coverage on that and all those losses have actually been recouped. So what is an asset management to do in the midst of all this? You've got shifting monetary policy, the integration of AI, geopolitical tensions, and at the same time, clients are increasingly wanted personalization of their portfolios, and agility in their portfolio construction. I'll start with the person who has come the furthest, Raph joining us, from Australia. I know that the Future Fund last year released a report on geopolitics, and the paper called for managing geopolitical risk proactively. But given that the very nature of geopolitics is rife with risk and uncertainty, how can investors think about quantifying that in some way to manage the risk?

Raphael Arndt 02:29

Yeah, thanks, Richard. So it depends, of course, what sort of investor you are and how active you can be across your portfolio. All my colleagues here to my left are all active managers on behalf of third parties, we would think about it for ourselves. So the essence of the research that we did in the paper that we wrote was basically saying, unlike the last few decades, where economic outcomes, macroeconomics was driving market behavior and returns, we thought we were going to see a lifting in geopolitics as a driver for how markets operated, primarily because countries—well, the world was becoming more multipolar and countries would see their market policies and stimulus policies through the lens of national security and national champions, basically the types of companies that work for them. So really, the essence of what we were saying was, don't try to pick the event. You'll get it wrong. And even if you get the event right, as you said, you know, the market will go down, the market will come up. Maybe the event's not really that important. It's the trend that's important. And so what we're saying right now, and this changes through time, but we think this trend will be sustained. The world is fracturing, we've got the rise of a multi-polar world with more localized, dominant economies or governments, both from a strategic military projection point of view, and from an economic and trading point of view, we're seeing that with the policies around tariffs, for example, which are designed to de-globalize trade across the world. And you can project that forward and understand that that will have certain types of impacts on both monetary and fiscal policies in different countries on how they deal with their currency, whether they let it float freely or not, whether there are capital controls and so, on the one hand, we would say, you want to be quite diversified in that type of world, because it's very hard to pick winners. Both geographically, I think what we're saying, as a foreigner sitting here today in the US looking at the US administration's policies, which the Treasury Secretary spoke about this morning, they're openly saying they don't want the US dollar to be the world's reserve currency, with all the costs that come with that, a US society? Well, that's a pretty loud warning bell for a global investor who has a lot of exposure to the US and US dollars. So we think more diversification is better, but I think the real number of it is things change really quickly. In geopolitics, individuals make decisions that can lead to wars or stop wars, changing, trade routes, taxes, all sorts of things. So you have to stay liquid, and you have to stay nimble, and that's something that we're taking into account as well.

Richard Ditizio 05:31

Let's stay on that, staying liquid for a moment and go to Jean there still seems to be an awful lot of cash on the sidelines. At first, it seemed the market was too expensive to enter. People waiting for an entry point. Now people are afraid of the risk to enter. As Secretary Bessent said this morning, from the stage, this process is not going to be linear or pleasant. So how are you advising clients at Wellington? What guidance are you giving?

Jean Hynes 05:58

So I would say, versus 2022 where a lot of money came out of assets into money market funds, not even bond funds, I think we're seeing a little I'm curious about what my peers here are saying. Seeing we are definitely not seeing a significant outflow, and we're seeing more interest in active management, even in this volatile time. So maybe it goes to what Raph was saying that the indices, or the indices are were so concentrated, so clients are looking for more diversification, and they seem to be looking for more diversification in plain old active equities. It for the first time in multiple years. So we're definitely seeing that trend, which, so even in this kind of environment, all we all we can do as an active manager and a research based firm is to make sure that we are doing what we do best, which is to research the, you know, we research, you know, the vast majority of companies in the world, and we research, as well as many private companies, and trying to connect the dots about what could happen and doing we're doing a lot of scenario analysis about what could happen with the with the policy, whether it's tariffs or trade or deregulation, how Europe reacts, how Japan reacts, and just trying, then, to spend a lot of time then thinking about what portfolios look like. And I would say, I said this to someone today, I think there's like, there's—we had one way markets, macro driven markets, and then the last couple of years we've had very highly concentrated markets. And so for us as an active manager, I think this period of a lot of volatility and a lot of more dispersion has actually provided and the ability to research and try to say what could happen, instead of fear, it's actually more of an opportunity that I think our investors are seeing.

Richard Ditizio 08:08

Okay, so Mike, I want to go to you, and there's always this debate between active and passive management, which outperforms and what market conditions, etc. But you were just telling me you've seen an extraordinary inflow into active ETFs, like give us the sense of where you see the consumer mindset in between those two.

Mike Gitlin 08:26

It's interesting in active ETFs. And we were talking before we came up here, the statistics are pretty remarkable. There's a trillion dollars now in active ETFs in the US. So what was 100/0 passive active is now 90/10 but the flows year to date are 40% into active ETFs, so that 90/10 will go 80/20, 70/30, 60/40, over the next 10 to 20, years. And Jean was talking about it, you're seeing a broadening of the market. Last year, seven stocks were accountant accounted for 53% of the return of the S&P 500. That is not a great environment for active management. When you have a broadening of the market and people are able to look at companies and see growth in small caps and dividends and stocks outside the United States, and you're able to do real analysis and find companies that will look a lot better 5 or 10 years from now. It's a huge opportunity for active which we're seeing in our numbers, and I'm sure others are as well. So you have sort of a perfect storm of the availability of the vehicle, which is more tax efficient, and the broadening of the market so you can outperform the benchmarks, and that's what you're seeing drive flows.

Richard Ditizio 09:43

So Bill, let's go to you. So I know there's this move towards democratization of access, towards alternatives, which is obviously a great opportunity to expand the net of who can invest there, but the illiquidity and complexity of those structures previously regard rails, which kept certain investors away. How can investors understand all the risks and opportunity in the space? And how does Nuveen think about that?

Bill Huffman 10:06

Well, I mean, that's a great question. We were talking about that before we came out here, obviously ETFs, private markets, overlay of SMAs and the wealth market, all these things are changing the entire way. I think wealth clients are looking at the market. And so when you think about bringing privates down to the wealth individual, it's a very difficult not only are you training your own team to explain these things to an FA who's done talking to a client. It gets very tricky, and for companies like ours who have public to private assets, we're bringing $350 billion of private assets to our clients, and we're having success, but it's taken several years to educate clients and our own staff on how to sell those to the end client. And I think that is a real challenge for all of us, as we can you know, over the next 2, 3, 4, years with clients, because they may not totally understand what they're actually buying.

Richard Ditizio 11:15

So Matt, let's go to you at global infrastructure partners with there's some current headwinds against ESG, not everywhere, but certainly here in the United States, a bit has investing in the energy transition become harder or easier over the years, and is there enough deal flow to keep that trend going?

Matthew Harris 11:36

I think if you look at the overall umbrella of infrastructure and what's driving sort of a golden age of opportunity. To me, the energy transition is the biggest opportunity over time, $100 trillion over the next 25 years. And why do I say that we're all beneficiaries of this fossil fuel based economy that is 200 years old. We're a bit energy blind, in my opinion. And that has a couple of components. First of all, I think most people fail to appreciate the density and the power and leverage in fossil fuels. So here's a very simple statistic to illustrate my point. One barrel of oil equals four and a half years of a single human's labor. One barrel of oil takes a single human working a certain number of hours per year—per week, four and a half years to get the equivalent amount of productivity. Fossil fuels are also scalable, they're transportable. They're a lot more dense. You don't get the same trade off a barrel of oil to a megawatt of electricity. It's a very different relationship. And my point is the complexity associated with the energy transition, you're seeing it play out today. It's expensive, it's complicated, and so when you ask, are we—is it harder or easier? I think from our perspective, because we've always thought it was going to be non-linear, because you're balancing energy transition against energy security and energy for affordability, and the deals will have to make sense on that basis. It's been slow. It will continue to increase, but my prediction is 10 years from now, energy transition will be its own asset class.

Richard Ditizio 13:37

So Jean I want to go to you as your longtime healthcare and biotech analyst and investor as the US government recedes from funding medical research. Does that create an opportunity for investors in any way?

Jean Hynes 13:53

So I think it's probably too early to say how they'll recede and how much they'll recede, but I think what is clear is that the biotech and pharmaceutical companies do not do basic research. That's just not what they do in their companies. They they're not, I wouldn't call them the last mile, but they are. They take over that basic research, and then they and then they focus on the pre clinical development, the development and bringing it to market, and that's where actually most of the costs are. But without the basic research, you wouldn't get some of the big breakthroughs we've seen over the last 30 years. So I think if the US government retreats, I think it will be an opportunity for other governments and other universities, probably around the world, to begin to contribute possibly more to basic research. You could see the private sector coming into basic research more it's the key to it's the key to everything. I guess I'm an optimist, and I would be surprised if the US government, over the long term, seeds the innovation. An economy that the innovation research that drives our economy, it's not just biotech and pharmaceuticals, it's also the technology. But clearly we're going to go through this disruption short term.

Richard Ditizio 15:12

So let's go to you, Raph, because as you mentioned, you are a non-US investor, looking at all the dynamics unfolding in the US. When I visited you in Australia a couple of years ago, I was very taken with just how important diversity and inclusion was to your staff, and just you felt it palpably at the fund. What do you make of the pushback to DEI here in the United States, and how are you thinking of it for a Future Fund. Here just anecdotally, even though there's a pushback from the policy perspective, recent shareholder meetings, 98% of Goldman Sachs shareholders, 99% of Levi Strauss shareholders, and 98% of Pfizer shareholders rejected anti-DEI proposals which were submitted. So give us the take from a non-US view.

Raphael Arndt 16:03

Thanks, Rich. Just an easy question to answer. Look, I think all of us are in the business of making complex decisions with uncertainty and bad information, like that's what you do when you're an investor. Added to that, right now in the world, there's a lot of change, so the things that you thought you knew you're probably going to get wrong. And so for us anyway, we sort of think, well, having the most diverse group of people around the table with different perspectives, different ages, different genders, different educations, everything just gives you the best chance of understanding and predicting what might happen. But of course, that you need those people, but then you need to get them to feel comfortable, to speak up, to challenge, to tell you what their view is. That's not a policy, right? That's just good business. And all of us, I'm sure, should be and are doing that in our own firms, every company should be doing that. I think where the issue arises is that, of course, in the fractured politics that really the whole world is experiencing at the moment because of these changes that I talked about, it's most acute here in the US. I think Americans just like to get excited about policy debates and take sides and fight with each other. You know, we're taking something that's just common sense and a good business and turning it into a fight about you're right and I'm wrong, whichever side you're on. And I think everyone on both sides of that sometimes takes it too far. And I think everyone admits that, like when you find examples of, you know, frankly, discrimination on both sides, right? And if we're all just sensible, and bring it back to common business, like common sense, not only should it be fun, that's why every sensible person supports it. I think, where it's getting interesting for us, for a global investor coming into the US, like all of you, like most of our fund managers, are based here, or at least have significant operations here, and as the laws change here, it's becoming more and more difficult for them to answer pretty basic questions we have about, how can we be confident that you're making good decisions?

Richard Ditizio 18:18

So let me pivot to the notion of size, I'll go to you, Mike, I'll note that the aggregate, AUM, of all of you is roughly $6 trillion on the stage. Are the big firms getting too big? Tell me what the advantages of size are, and what's the downsize of size?

Mike Gitlin 18:35

Yeah, when you have and we are just under $3 trillion of assets, size is a benefit, and it also can be a challenge, and we think about that all the time. Part of our planning on our long term strategic plan for 2031 was, how do we do the same or better for our clients as we grow assets, because we measure ourselves by outcomes, not AUM, so how do you make sure you have better outcomes. One of the things you do in investment management is you keep making yourself smaller, so you keep breaking into groups, so those ideas don't just get lost in the system of noise. Capital Group did that long before I joined in a concept of disaggregation. So we have five investment units managing that $3 trillion pool of assets, and so that proliferation of investment units helps us stay small. When our assets are big, the benefits are scale. And it's a scale business, the bigger getting bigger. It doesn't even matter what industry we're talking about, the bigger getting bigger. And when you have that kind of scale, and you're a private entity, and Jean, I'm sure, has the same type of benefit, you're able to invest in your business. When some others who might be public and don't have scale Can't you can deliver more to your clients. You can extend your advantage. So what I always say at our team, to our team, is, if you're not. Taking advantage of one of your biggest advantage, it becomes a disadvantage. So we try to take advantage of that scale add more resources to our clients when our team says but we're ranked number one in thought leadership and number one in practice management with financial advisors, my question is, how do you extend that advantage and help more people not rest on your laurels. So trying to use those resources and scale to benefit clients is mission one.

Richard Ditizio 20:28

So let's talk about attracting and retaining talent. Bill, I want to go to you in this very competitive environment where talent is moving from one firm to another, how are you thinking about not just AI, but other automation tools that are available to you and your staff. And I want to follow up on something. Jean said that over the last significant period of time, markets have generally moved in a unidirectional way, so younger people have not experienced the same kind of market cycles that older people have. Does technology step in and replace the wisdom that all of us older people have, I think, seen so many different markets. And how are you attracting the young people into the firm?

Bill Huffman 21:06

Yeah, so well, first in all of our businesses, people are the key asset to what we do. And we have to deliver investments. We have to deliver performance, we have to deliver outcomes to those individuals. So retaining people come in a variety of way. Obviously, you're paying them well. You have incentives, you have, you know, long term incentives that keep them in place. You motivate them to want to be at your organization, and they'll stay with technology. What the way we're using technology today? I'm sure everybody else, we're all testing technology and how to use AI. AI is not going to replace them. You still need them to be able to think make the investments. It's going to make them more efficient. And in a scale game that Mike was just talking about, you have to get fees are going to get compressed in our industry. That's why scale is important. You've got to make it more efficient, and you gotta deliver investment returns. So using AI, we use it today to help our research analysts. It goes through a lot of information down very quickly, so that then the analysts can actually make better decisions, quicker decisions. Investments can happen faster. It's actually making us better investors.

Jean Hynes 22:22

Can I just add there? I think one it's upon us, all of us like this is such a fantastic industry. And how do we make sure young people realize what a great industry it is, and we don't, often we don't do a good enough job as CEOs in this industry to say the importance of the asset management industry to innovation around the world. And so when I try to motivate our young employees to say, this is, this is a great career versus other industries you could do, it's both. You are providing long term retirement to people all over the world. That's number one, number order countries or to or to individuals. Number two is we get to decide where capital is deployed and back where—what Matt said the next how many years? How many years did you say, 10 years?

Matthew Harris 23:14

Four and a half.

Jean Hynes 23:15

Four and a half years, the amount of capital that will be deployed to do amazing things in the world. It's sort of the secondary benefit of this industry. I personally have been involved in helping to fund companies that that treat a lot of your yourself and your in your family, and that's like one of the things I'm most proud of in my career. And so we need to tell that story, and tell it in a motivating way, to keep to make the young people in this, in this, that are coming out of college or in their 20s, to say, Wow, well, this is a fantastic industry. You have people that will mentor you, to teach you how to be an investor. And so that's one of the things we talk about a lot.

Mike Gitlin 23:57

Yeah. One thing I would add is a lot of folks who are in more commoditized type functions, you have to spend a lot of time developing them into different roles. I was asked a question in one of our events we had internally, and someone said, can you tell me that AI is not going to take away my job? My answer was absolutely not. I'm going to tell you that AI is going to change most jobs and create plenty of jobs, but you need to invest in your own career, and we need to invest in your career, because a lot of things will change in the next decade. So you have to be a participant in that. You can't be a bystander in the change and development of people. It's a contact sport, you have to, you have to really get out there and make sure the firm's investing in you, and make sure you're investing in yourself.

Matthew Harris 24:46

Just a frame on this AI from our perspective, where we have such concentration in terms of what we're buying. Buying, and it lines up with four sort of corners right? First, we have to originate the transactions. We have to then make an investment decision. Third, we have to operate them. And lastly, we have to exit them all within a window of performance. And we're going to begin experimenting next month in our investment committee with an AI agent that will join the Investment Committee, and so you would have a team that might bring a large transaction to the Investment Committee. Let's say it's eight different people, and they would have invested countless hours researching the arithmetic on that transaction, assessing the competition, talking about the exit opportunity they would have in that in that analysis, done lots of work around comparable transactions, public market, private market, setting benchmarks for how we might set up a valuation. And think about if we're in that meeting and somebody in the investment committee says, well, I see that analysis you did there, and could you do it differently for me? And the AI agent enter that in, and in five seconds, it spits out an answer for you that's really interesting, and there is no question it's going to change how we think the composition of the teams that go into what we've done for the last 25 years, that's going to be a fundamental change.

Richard Ditizio 26:30

So let's talk about your actual work and the importance of public private partnerships. So given the increased amount of governmental debt globally and the geopolitical tensions that are unfolding around the world when you're thinking of infrastructure projects. How do you think of those partnerships differently today than you might have a few years ago?

Matthew Harris 26:52

So I think there's two answers that the first is the level of government debt and the ability of governments to fund the scale of the projects involved, if you think about the key drivers of infrastructure digitization globally, which includes not only digitization of the economy generally, but also kind of AI, cloud, power convergence, it includes the refurbishment of existing infrastructure and one only need to travel to many airports in the United States to see the degree to which we need refurbishment. That would include things like the electricity grid here, which was effectively designed for an electricity system that was 70 years old. So refurbishment developing markets 60% of the capital required in infrastructure over the next 25 years is in the developing markets, and then the energy transition and decarbonization. So that scale comprised with the lesser abilities of governments to fund all these projects, is going to lead to a proliferation of public private partnerships, and we're seeing it today across our entire business. I think what you have to be able to do, though, is show the government or the partner the value proposition. You have to show that you're more than just capital. We just did one in Malaysia, where the government saw that the quality of the airport and the way the airport operated was truly affecting their economic proposition. They were not getting the level of tourism or business interest in the country because of the condition of the airport, and so they needed an operating partner who could deliver on that, and we had the capability to do that. We structured it though, where the two sovereign funds in the country would control a majority of the equity. It's a flagship asset that a country, in most cases, Australia, would be a bit different, where the government doesn't feel a need to control the airports, and that was a way we could do what the government wanted, but really retain the operating, you know, control of the asset in somebody who knows how to do it, and we're going to have to deliver. They have high expectations in terms of what we deliver, in terms of performance.

Richard Ditizio 29:20

So when I started my career, there was pretty clear diversification strategies in which assets were correlated and which ones weren't. So Raph, I want to go back to you, as we've seen an increasing correlation between equities and bonds. Do those traditional models still make sense when these asset classes are tending to move unidirectionally.

Raphael Arndt 29:42

Yeah, I mean, I think the model, the models that you refer to, are all based on observing the world since World War II, our markets behaving since World War II, and we've actually been in a pretty consistent geo-strategic economic regime since then. So we're actually moving out of that regime now into a different one. And if you look back in history, the world's been in these cycles before. So it's nothing special. It's just that we're not old enough to remember, and so we don't expect those correlations to hold, at least not through all time periods. And so it's really important, I think, that our industry and that when you're talking to the financial planners, that, in turn, talk to their clients, they understand that some sort of equity bond portfolio isn't just going to be the optimum thing through all market cycles. And we've actually referred to the geopolitics paper, but we also wrote a paper called The Death of Traditional Portfolio Construction, which talked about this point. So it's not that in every market cycle, bonds won't be defensive. They'll be defensive in a traditional recession type environment, but in many, many cycles stagflation being one, they just won't be and so we just have to be much better at our game as an industry, than just relying on the classy, modern portfolio theory, capital asset pricing model sort of approach.

Richard Ditizio 31:11

So I know even as deep as the bench is here in all of your companies, you still seek other partnerships to give clients more opportunities. So Mike, tell us a little bit about your partnership recently with KKR, how it came about, what you think the benefits are for both your firm and your clients.

Mike Gitlin 31:26

So the partnership with KKR, we announced it a year ago, our first two strategies where there's 60% public, 40% private, 60% public, us, 40% private, KKR, obviously, they just came in the market last week, and the reason we wanted to seek a partner was neither of us could achieve this by ourselves. We are not a private manager in terms of assets. They're not a public manager in terms of assets. They're really good at what they do, we believe we do a reasonable job on our side. And if you combine those together, and you make accessibility the key point, $1,000 minimum, less than 1% fee, not taking any care, training and education of financial advisors, you give people access who haven't typically had access institutional space have been into the private asset market for 30 and 40 years.

Wealth Management, vast majority of wealth management financial advisors have very, very little private assets. And so by putting the two together, it's a lot easier for us to say, come on the journey—do it in a calm way, in a more liquid than standalone alternative way, in a cheaper way, with greater accessibility. It opens up that market to a whole cohort of end investors who may want to take the journey, but want to start off slowly, and the way we in which we think about it, and KKR has been a fantastic partner, is they can get the best of both worlds in a single vehicle. That's not just a bolt together. It's not just the 60/40 bolt together. It's the investment teams meeting together, lots of lawyers in the room, but meeting together and making sure they're sharing ideas about portfolio construction and cash and asset allocation and sector skews and all of those things to deliver a singular outcome. It's just, it's a really interesting way we think, to have folks get access.

Richard Ditizio 33:30

So Bill, let's go back to you for a moment, just given the length of time that the company culture has been in place with you as the CEO, like, how do you think about passing that value system that was so much a part of the brand down and what's your stead to your employees as the leader?

Bill Huffman 33:51

Well, I mean, Nuveen being around 125 years, it's easy to maintain the culture over that 125 years. And what I mean by that is, everyone knows the history of John Nuveen. They know they've been innovative. We know we've created an organization that has a public to private platform that is pretty differentiated in the market. We're an asset owner, so we're investing alongside of our clients as well, and we just build that every day with our client base and with our own staff. And when you can, you when you can drive that home talking every day with your clients, you drive that home every day talking to your to your own staff. People see the success that you have. And when you have that, the culture builds on itself, and the people start building and building and building. But so I think it's just, you just got to stay at it every day, with being in front of your clients, being in front of the staff, bringing who you are, and bringing that innovation to your end client. When you deliver, you can kind of maintain that culture within the firm, but at least that's the way I think about it, but, but I think, you know, going back to something that Mike said about the public, the private, you know, bringing these asset classes to our end clients, both institutional and to our retail client base. It's a that's the future of the world. It's just we're—you know, we used to call it traditional and alt. It's just public and private now. I mean, that's how you talk about it. It's just different ways to access different types of returns, different types of risks, different types of investments, to diversify your portfolio. And we're talking about that every day with our clients.

Jean Hynes 35:41

I might just add that, you know, there's a much greater part of the economy that's in private lending and private assets than there were 15—10, 15, 20 years ago. And so there's almost a fairness about it. How to 20 years ago, people invested, and they got to invest in the economy. And now there's a whole group of people that are not investing in some of the most exciting parts of the economy. And so there's a there's a there's a fairness to it, and there's the reality that alternatives are illiquid, and so like that. That's where the end, and when you think about it, that's where the innovation is coming. That's where the vehicle innovation is coming. The asset allocation, liquidity management is much more important in the future. And I would agree that we're beginning to see clients begin to think about what's my credit exposure, and not talk about private credit or public credit, what's my growth exposure. And I think we're going to look back in 10 years, and there's going to be a shift in how people think about their exposures, partly because they are similar. It's just the liquidity is different. What people are ultimately investing in is similar than it was 20 years ago. But now, for example, companies are staying private for longer because of lots of rules regulations. It all started changing, and when the SEC made a bunch of real changes in the early 2000s and why shouldn't the world population have access to that.

Richard Ditizio 37:16

And when you think about the concentration, right? So 20 years ago, also the US was about 30% of the global stock market. Today, it's probably 55% or so. And to wraps point, does the US stay as attractive? There is some sentiment about anti-US assets right now. How do you think about that going forward?

Jean Hynes 37:40

So I think it's what's clear is that the US represents 70% of about 70% of we'll talk about the stock market. Mean that's only sustainable if the earnings come through. The earnings have also that the US earnings have grown faster than earnings in Europe and other parts of the world and the multiples have gone up because of the growth profile as well. So I really think it's a combination of what happens with the current, with everything happening, what happens to the growth outlook. I hope, you know, I hope we talk more about AI coming up, but one that, one of the things that's clear, if you take that extreme US dominance. It's because of the dominance of technology, the technology sector in the last particularly in the last five years, but also over the last decade. And the question is, will they still dominate? I suspect the US will still dominate technology innovation in the next five to 10 years. But, you know, but the concentration of the markets has to disperse and get broader, or you can't justify the valuations of those stocks. And so it you will—we see, it'll be interesting to see if your AI agent helps you. I suspect it will. I know we're beginning to see some really positive use cases. And so you'll get this natural benefit of the technology that was generated in the US. And the question is, who adopts it fastest? Will it be US companies? Will be European companies? Will there be leapfrogs in emerging markets using this technology? How will China develop in this, in this, in the race to develop applications, and how will all of our companies either get more productive or more innovative? And where, where will ultimately, 10 years from now, those earnings be? I think it's too early to protect—predict, but with 70% of the market cap in the US, I would, I would take the bet that it will be lower.

Richard Ditizio 39:40

Going forward, and how about—

Jean Hynes 39:42

The risk to that?

Raphael Arndt 39:43

Yeah, is, I mean, firstly, I would say that's true, because of the phenomenal success of those companies and the global and much of their revenue comes from the rest of the world. Yeah, and so in this environment where the US government is picking a fight with the rest of the world, there are risks concentrated in those companies from regulation and other rules from the rest of the world that now investors are taking a huge exposure to just because of the concentration. You know.

Richard Ditizio 40:13

How do we think about the $36 trillion of debt the US has, and we just crossed $1 trillion of interest expense? I mean, we probably have a view here in the US, but Raph, what's the outside of the US view?

Raphael Arndt 40:23

I think the point of that is you can get away with that. While you're an attractive place for capital to come, you can fund your budget deficit, but for a country that doesn't really say very much, you know, be running a massive budget deficit and then starting to allow people to ask questions about, how successful will my global companies be because what other governments might do, or how stable will my currency be because of our own policies around it, or the independence of the central bank, or any other sort of thing, that's when you risk the house of cards.

Jean Hynes 41:01

Can I ask him a question like, what do you think other governments could do? Just curious like—

Raphael Arndt 41:05

Well, I mean, Europeans have already said what they want to do to all the big tech companies. It's just that they agreed not to do it in terms of regulation, taxation, access to data.

Mike Gitlin 41:20

Yeah. And the only thing I was going to say is you had, effectively, 15 years where one thing sort of worked. It's if you own the S&P 500, you own the US dollar, you did pretty darn well. And every time you diversified, you felt like it hurt you, and you did it because it was cheap, because there were good opportunity, because they're well run companies, that it's a great company and less of a good neighborhood, all of these things. What you're seeing now is, I think, a big and it's not S&P 500, and then everything else, it's this big and where you can evaluate opportunities in this broadening based on the opportunities that you see in individual companies, like Raph said, a lot of these companies are global companies. Where's their production? Where are their customers, what's their currency exposure? It can become much more complex and interesting and beneficial to be and instead of just the S&P 500, and I think you're I think it's the beginning of that, and that will, and Jean talked a little bit about it. I don't know if it will be 70%, 65%, but I think you're seeing investment professionals look around the world at opportunities, and that's a really good thing, just in general.

Richard Ditizio 42:33

So one trend that I think is interesting is unfolding right now is that we were in the beginning of the largest wealth transfer in the history of the world, some $70 trillion, $80 trillion is going to pass from one generation to the next. So running a firm that wants to retain those assets, how do you? I'll start you with Jean, how do you think this inheriting generation might differ from their parents in activating the capital and how they invest it?

Jean Hynes 42:59

Well, I think it goes back to, how do you motivate, like, how do you motivate our younger generation of employees? I think it's about purpose. It's about, you know, what are those assets doing to help the world? I think this generation—

Richard Ditizio 43:13

Resonates more with younger people—

Jean Hynes 43:15

Really, really cares about the world. It cares about climate, it cares about it cares. You know, they're very technology savvy. And so I think it's about what will motivate, what will motivate this generation to invest in—in the end, it's their capital, right in the end, and this wealth transfer, it's their capital. And so what kind of, what kind of, what kind of investments will they be interested in? And I suspect it will be, there'll be more. I mean, the next generation, very, very much cares a lot about, cares a lot about the world.

Richard Ditizio 43:51

And sustainability.

Jean Hynes 43:52

Sustainability and social justice. And so how does that play into, how does that play into, how does that play into the investing world, and what companies will benefit from that. And I think we sort of know that there's going to be this, these new vehicles and a greater way to greater way of democratizing alts and bringing the whole economy to the wealth market. And I think it's probably early days. But how will, how will we deliver that in a more digital way over the next decade? I think it's still too early to know, but that probably will really, will we catalyze invest in this generation? Will they really, really care about how they interact with their financial advisor, how they interact with their asset owned manager? I think that will be another thing that will be quite interesting to see.

Bill Huffman 44:44

You know, Rich, what's interesting with what we're all talking about, in terms of the broad themes, obviously, privates, the wealth market, technology. You know, one big theme that I think is out there in our market today is retirement and the aging population and how people are going to retire in the future. And we're all putting in our target date funds private asset classes, but now we're starting to innovate, putting annuities into, you know, target date funds, and bringing that to the DCIO market. And I think that's a big trend, and will be a big trend as we move into the coming 2, 3, 4, years.

Richard Ditizio 45:25

In 1900, the median age globally was 32 and today it's 73 so if you knew that the whole world was going to live 40 plus years longer, right, you might have established a different retirement structure. So when our retirement structure in the US and many others was established in the 1930s it's much closer to 1900 than is to 2025 so we need to, like, rethink that and a lot of this aging infrastructure. Back to you, Matt, when you have you started this company nearly 20 years ago. What was the opportunity set then that made it attractive, and what's changed over that time, and how can tech help you in the future?

Matthew Harris 46:06

I think the world has become even more global, and the complexity delivering everyday services that infrastructure delivers has become more expensive, bigger scale, bigger funds required to do it. That being said, I think the opportunity today from the investment set is as good as it's ever been, and frankly, is better than it's ever been. We're, in my opinion, sort of on the front end of a golden age of infrastructure because of the things I mentioned earlier. So and I think right now, given a lot of the dislocation we're seeing, buying opportunities that we haven't seen in a in a number of years. As a result, I think technology is really important. I mean, I coined a concept here last year that I refer to as Infratech, which is the convergence of technology and infrastructure. And yes, it's AI and it's machine learning. How do you run a grid more efficient and more efficiently? It's robotics, it's sensors, it's you know, markets, it's distributed ledger. All of that is going to contribute to what I think is essential in terms of this next generation of infrastructure. Because we, in my opinion, we have to decarbonize, and people may have a disagreement with that, I think the evidence is clear. It's not easy to do for the reasons I mentioned, but the infrastructure that we design has to be more efficient, more resilient, and lower carbon intensity, and technology is going to play a big role in that.

Richard Ditizio 48:02

And are there any risks that investors aren't seeing in the on the horizon that you all are worried about? Start with you, Mike.

Mike Gitlin 48:12

I'm sure. Look, I mean, I if you looked at everyone's expectations coming into this year of deregulation and lower taxes, and what the expectations were that the President wanted in terms of an outcome for the equity market, you would have thought that things would be flying. I don't—I think the problem that we're seeing right now is every panel like this in the world is saying the same thing about there's lots of uncertainty because we're all trapped in the moment, and there is tremendous amount of uncertainty in the moment. It's not enough looking out five or 10 years we had a—we had a conference in London about a month ago, and it was one of the days where the S&P or Nasdaq was down 7% one day and up 9% the other that two day window. And our whole focus during that conference was the future. And it was great because, you know, we told people just sitting in the audience for two days, we saved you money in transaction costs. You didn't have to do anything. So I think there's going to be a lot of opportunities, and the risks we see are right in front of us. But if you can look out five or 10 years and find great companies with great management that have a moat around their business, that are evolving in what they do, there's always going to be opportunity. There's always going to be innovation. So I sometimes I love the noise of the moment, just because it reminds you to try to get yourself away from it and think about five or 10 years out, and it's liberating in many ways.

Richard Ditizio 49:51

And Bill you were talking about retirement is there's a growing risk in the United States, 40% of the people can't meet an unexpected 400 expense, right? We seem to be in our own echo chamber, but that's the reality. What on the retirement horizon? Like, what is the risk of all these people like entering retirement with not enough assets? And how do you think about that?

Bill Huffman 50:13

Yeah, I mean, I think that's what I was kind of alluding to earlier. We've created what's called Nuveen lifetime income, their target date funds that we embed a annuity in it from TIAA. We've been doing this 403(b) market for a long time at TIAA, bringing it to the DCIO market. And you know that if you can get that early into someone's allocation, you know, in their 401(K), and they start building over years of time, then they're gonna get this stable income stream as part of their asset allocation during that period of time. And when they go to retire, they're gonna, essentially, you know, have lifetime income that they can convert that annuity into. And so it's almost like embedding a DB and a DC plan together in some way, shape or form, if you will. I think you know, doing that early, educating young people early in their careers when they're investing their money, and having a solution like that can make a real difference in when they retire.

Richard Ditizio 51:19

Okay, and Jean, any thoughts on that? On the retirement question.

Jean Hynes 51:25

On the retirement question, well, maybe I'll offer a perspective that people are going to need more retirement if everything that we see happening in biology happens and people. So I actually think it's really quite an interesting question. We you went back to 100 years ago, the infrastructure, you know, Medicare, when people, when Medicare was enacted, people lived till 67 that was the average age, life expectancy. So I think the government thought they would be paying two years of two years of Medicare. So I think the biggest question is, how do we fund retirement if people live to be 90 or 100 or a much greater portion of people live to be 90 and 100 and I would make the bet that that's going to happen, and I know that's not showing that—it's not showing up in the statistics right now for in a country like the United States, but if you fast forward 10 years, and you've had, you've had a whole generation like my generation, of people that will be on statins, blood pressure medicines, GLP-1s, you're just going to lower the morbidity and mortality of people dramatically in the next 20 years. So I think, how do we, how do we lengthen, extend retirement that there will have to be a significant mind share shift about, probably and how you invest your assets.

Richard Ditizio 52:49

Is it seasoned health care investor? Are there opportunities that you're more excited about?

Jean Hynes 52:54

I think the what I'm most excited about is, well, I do think GLP-1s, will be very broadly used, and sort of every outcome study so far has shown benefit. And you've seen it in cardiovascular, you've seen it in kidney, you've seen it in sleep apnea, and we will, over the years, see it in Alzheimer's. We'll see it in lower cancer rates, when you think about all the medicine that's happened in the past 30 years. The benefit of it has been offset by the gain in weight that the world has seen. And so I do think that you will see a real bending of the mortality, morbidity, cost curve of health care. And so it's pretty that's pretty exciting. And so how do you get those drugs? The fact that we now potentially have an oral drug. There was one study that that one of the drug companies did that look like it's works and it's safe, that that's exciting, because that will, that will bring it to more and more people. Okay, so that would be one, I think the most important thing, though, is the fact that in 2025 there's ways to treat every kind of biology. You know, when I first started, there were really only oral drugs that treated tiny targets in the body, and then, you know, my—at the end of the 90s, you had antibodies that allowed you to go after large receptors in the body. And now we know we can go after our RNA, DNA, all sorts of bio and biology is wide. And so what causes disease? Is it caused by this RNA target, or is it caused by this enzyme? Is it caused by a small receptor or a large receptor? I think until about 10 years ago, you really only had a very narrow way to treat biology, and to me, so it's like the breadth of ways to treat is what's the most exciting for the world.

Richard Ditizio 54:46

And Raph, let's go to you again, as a non-US investor, as you were talking about the US, where are you deploying capital outside the US that you're seeing opportunity?

Raphael Arndt 54:56

So firstly, just to put that in context, you know the US is a remarkable economy. It's hugely innovative, it's a country that's attracted clever people who want to make something with their life and are willing to take risk. And we see the manifestations of that in the economy, the market. And we've, we've had mostly very open markets, clear regulation, independent institutions, and that's why the markets are expensive relative to the rest of the world. It attracts more capital. Companies come here because they can raise capital more cheaply to grow and invest and grow nationally. So it is a challenge as a global investor to say, well, all those things are still true. There's a bit more risk now. And so if I want to put a bit less there, because remember, it's 70% of the market. So every new dollar I've got, probably 70% is coming here, unless I change something. You know, let's put the cost of capital up for the US a bit well, where else would you go now? I think for us, there's sort of three places that we're quite interested in. So Europe, yes, you know, they've got demographic problems. Yes, the economy is pretty flat. All those things are still true, it's a lot cheaper. But also, you know, something's unlocked there. Actually, the before I said geopolitics is driving markets, the events around the sort of Ukraine relationship and NATO have prompted European countries to snap out of a stasis they've been in and say, we're going to invest in our countries, we're going to borrow money, we're going to have a fiscal spend that's going to not just be an economic tailwind, but lift the yield curve probably generate some inflation, and as long as you sort of ride through that, don't have too many assets there to start with, that means returns will be better. So we're quite interested in that, especially in things like private credit and some private equity strategies that are niche—niches. Japan is really interesting, yet it's done pretty well over the last few years. And yes, the demographics, everyone understands, but there's a real change in attitude to risk, risk taking, a willingness to energize and invest in their own economy, in their own companies. And really, I think as the generation that went through the bubble in 1990 sort of leaves the workforce and decision making positions, the younger people, if you haven't been there recently, are willing to take risk and invest in companies. And there's an emerging, for example, venture capital industry in Japan, interestingly, and so, and there's a bit of inflation there, the same type of effect. So that's quite interesting. And then for us, we're an Australian investor, our liabilities, not that we have them, actually, but our stakeholders liabilities the government, are in Aussie dollars. It's still a growing country from a population point of view. There's certainly things we should be doing to become more productive, but we know what they are. And so we're taking some money back home, from our perspective, back to Australia. And funnily enough, really, because a lot of the super funds, which are the bulk of the institutional investment capital in Australia, are so full on Australia, because they started investing there, and they're only starting to go offshore as they get much, much bigger. Actually, the returns we can get back home are going up at the moment. There's less competition for things than it has been.

Richard Ditizio 58:33

So I want to end on an optimistic note. So I want each of you to tell me what the trend you are most positively inclined to for the next year. And what makes you optimistic? Start with you, and we'll go down.

Jean Hynes 58:48

The trend—this is on the being a CEO of the asset management industry, I think the most for me, and I'm gonna, I'm gonna talk about our own company, I think it's the it's the broadening out of the market. And what I mean by that is you have a whole series of investors the last five year where the where the concentration of the benchmark has been so frustrating. And so I do think this broadening of the market is going to—I think it's really exciting.

Bill Huffman 59:18

Yeah, I would say for me, it's the public to private investment landscape and bringing credit like we're talking about earlier, just bringing credit and equity to our clients across those—across that platform, and globalizing the business,

Matthew Harris 59:37

Democratization of alternatives, specifically infrastructure. But having been largely institutional, having the ability to make infrastructure available to a much wider investor audience.

Mike Gitlin 59:51

Two things at the same time, the broadening of the markets and also with our partners, a narrowing of the number of partners they use to do more for them. Those are both powerful forces.

Raphael Arndt 1:00:04

Yeah, I think something similar, but it's the—you know, part, part of the same trend is that actually a lot of different parts of the world are becoming interesting places to invest in. So you call that the broadening of the market, maybe. But it's more than that. It's the economic growth, the jobs, the prosperity, and I think that just makes it's great for active investors all of you up here are, but together with that, we haven't really talked about it much, but AI, I think, has the potential to drive a massive productivity boom in our companies. And you know, we heard Elon Musk yesterday talk about the potential for using the government to make it more efficient. Let's hope they can, you know, it really, I think, will be game changing.

Richard Ditizio 1:00:45

Well great. I want to thank you all for your participation and enjoy the rest of the conference. Thank you.

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