

CONNECTING GLOBAL MARKETS: NAVIGATING RISK TO UNLOCK GROWTH

Announcer 00:46

"Connecting Global Markets: Navigating Risk to Unlock Growth," moderated by Carolina Millan, Mexico bureau chief, Bloomberg News.

Carolina Millan 01:52

We're so delighted to continue this morning's programming to discuss a really important topic for everyone today, connecting global markets and navigating risk to unlock growth. Thank you to the Milken Institute for convening all of us today in Mexico City for this great conversation. So I'm very pleased to introduce our speakers today. Mary Ng, former minister of international trade for Canada; Len O'Donnell, chairman and CEO of Affinus Capital; Pablo Sprenger, executive vice president of Principal Financial Group and president of Principal Latin America; and Wolfgang Schwerdtle, head of Direct Investments Group for Latin America and co-head of sustainable solutions at GIC. And I just like to highlight that we have such incredible investment heavyweights on stage today. We made the calculations and, of course, we know that GIC doesn't release the totals under management, but based on a back-of-the-envelope calculation, we should have about 2 trillion, or well over 2 trillion, represented on stage. So, thank you, all of you for your time this morning. Mary, I'd like to start with you looking at the macro portion of what's going on in North America these days. It's a moment of a lot of uncertainty around trade, and I'm wondering: Can the United States–Mexico–Canada Agreement (USMCA) survive with so many key sectors under pressure from tariffs?

Mary Ng 03:29

Well, thank you. It's great to be here and to be with the panelists. And the answer is yes, because it can and it should. The USMCA and NAFTA before that is the trade architecture for the largest trading bloc in the world, that is North America. And if you look at around the world where regional trading blocs are emerging, why would we want, for any minute, to concede not working as hard as we possibly can to make sure that the trilateral trading relationship between Canada the United States and Mexico continues to prosper into the future.

Carolina Millan 04:13

Mary, how important is it for Canada and Mexico to try to preserve it then, as a trilateral bloc? Or should they be open to striking more bilateral deals among each other?

Mary Ng 04:24

I think that the trilateral agreement and deal is exceedingly important because, as I said, the North American trading bloc, is the largest in the world. It's been the largest in the world. It's been the most successful in the world, and I think the three countries should work really hard to do that. Those of you who are here and for us in Canada would have seen both me Minister Carney and President Sheinbaum meet here in Mexico just very recently. Coming out of that, there is a three-year strategic roadmap for Canada and Mexico. In that it's a very robust agreement, I guess, or a commitment with each other for us to strengthen the trading relationship, the investment relationship, in a whole number of very strategic areas that are beneficial for both Canada and Mexico. I think we should do that together very, very committed and deeply. And I think at the same time, we ought to keep doing the work of preserving this important North American trade pact. I'd like to say we can walk and chew gum at the same time and we should.

Carolina Millan 05:30

Len, you've been investing with a focus on logistics and infrastructure in Mexico for several years now, given the current environment and the current uncertainties, would you say that now is still a good moment to invest in Mexico?

Len O'Donnell 05:42

Yeah, absolutely. First of all, I am a believer that the trilateral agreement will survive. It has to. You know, being a Texas-based company, we sort of, you know, look at it and say that we're where the NAFTA highway ends up, right? So, you know, I think 10 years ago, when we started thinking about investing in Mexico, one, we saw the power of that trade partnership, right? And we started coining the phrase, which we borrowed from an author, friend of mine, of the North American decade, right? And we thought that's what we were heading into. I think we thought early days that globalization would evolve. I don't know that we quite anticipated the rate or the intensity of the dissolution of some of globalization that we're seeing today, but it just made sense that ultimately, the US in particular had to revise its supply chains, and Mexico was the natural place for us to do that. So I think—and if you go back, you know, you always look to sort of draw on a plan, then you go back and evaluate that plan—I think if you go back seven or eight years ago, when we started, we anticipated a tremendous amount of activity in the border towns, manufacturing based, supply chain based, and while we've done some of that, really our business here has been driven by some of the themes that have been talked about today. Is the growth within Mexico. E-commerce and other retail activities have really driven our logistics business and the growth of our logistics business here as much or more than that supply chain transition, but we are absolutely believers in the onshoring near shoring thesis. Yes, right now there's a heavy emphasis on bringing manufacturing back to the US, and we all know there's political reasons for that, but the reality of it is it's not all feasible, right? It's just too natural and too logical for a large amount of that manufacturing to happen here, and then you couple that with, you know, the growth in the economy, the growth in the middle middle class here in Mexico, I think it's one of the most exciting opportunities we see.

Carolina Millan 07:56

Pablo, from your point of view as an institutional investor, where are you seeing the opportunities for investment in Mexico now?

Pablo Sprenger 08:03

Thank you, Carolina, and hello everyone. It's always a pleasure to be back in Mexico. I have the opportunity to live five years in this amazing country, and I see a couple of friends in the audience. And part of the amazingness is that it's full of opportunities, full of challenges, but full of opportunities. And in terms of capital markets, we see three key topics, or key trends that will represent significant opportunities in the next five to 10 years. First, is the rise of the institutional demand. So I'm going to talk about it, but the authorities are expected to almost more than double in the next five to 10 years. The second one is the opportunities that we will see due to real economy and nearshoring. It's—nearshoring has been in the news, in the conversations, for a while, but there is a huge opportunity there. And the third one, and it's related, and it will act as a bridge between the first one and the second one is the development of the private markets. We need a stronger and deeper private credit market. We need a stronger asset managers providing those flows of capital where banks or polling markets are not there. The pension industry right now is 400 there are a couple of colleagues here, so probably they will correct me, but it's around \$420 billion of AUM. That number will go to almost 650, by 2030 and more than a trillion by 2035 currently it represents 22-23 percent of the gross domestic product (GDP). In Chile, the pension system represents 70 percent of the GDP. And in Chile and Colombia, the pension systems provide 100 basis point, 1 percent of additional GDP growth on a yearly basis. So this is something that will come to Mexico, and those AUMs will need to be invested. And we know that there is a high chance that most of that part will be invested in local, onshore projects, asset classes, etc. And that's why the development of private credit, private equity to boost the growth of the real economy and the near shoring opportunities, as Len mentioned, in infrastructure, in logistics, are the key opportunities that we see as institutional investors.

Carolina Millan 10:48

Pablo just to stay on one of the last topics that you mentioned, about private credit, which is a topic that has come up in the Global Conference that Milken has held this year. What else should Mexico be doing to be able to really capture that global trend?

Pablo Sprenger 11:03

Well, as you mentioned, Carolina, this is a global trend. Currently, the private credit market is around 1.5 trillion in the world, we're expecting to go to 2.52 point 6 trillion by 2030. In Latin America represent less than 1 percent so Latin America in general is a huge opportunity for private credit to have a successful private credit market. We need more than Ghana's, as we say, we—it's we need to have a strong system that includes the rule of law contracts that are enforced the right asset managers with the right risk assessment. This morning, I had a conversation with one authority, and I asked, What do you see as opportunity, just to have more topics to share with you today, and the CIO said, I love private grade, but I'm worried about the quality of the grades that we can get. Now. We have been enjoying a nice market, but what will happen when the wind is not tailwind anymore, is headwind and we don't have or we don't know if we have the right assessment of the risk that we're taking bankruptcy laws and definitions are also relevant. So this is an ecosystem that needs to be prepared in order to boost this flow of capital that we know that is there, but it only needs more certainty, more predictability.

Carolina Millan 12:45

Wolfgang, GIC is active across the region. How is Mexico positioned compared to the other Latin American countries for investment?

Wolfgang Schwerdtle 12:54

Thank you. Carolina, good morning. Everyone. Great to be back in Mexico with the Milken Institute. Also very excited about next month's inaugural symposium in São Paulo. Maybe just a bit of background to answer the question. GIC is active across all asset classes, public, private markets, and we're very global, with 11 offices around the world with decades of experience investing in emerging markets, and also with a physical presence in key emerging markets such as India, Southeast Asia, China, and here in Latin America as well, where we established our office in 2014 in São Paulo in Brazil, from where we cover the whole region. Key observation is that we don't have any fixed allocations top down by country, region or sector, which means our capital can go to Asia, it can go to developed markets, it can go to emerging markets, and it can go within Latin America, go to Brazil or to Mexico. So your question is really very relevant, kind of comparing, especially Brazil with Mexico, and how is Mexico positioned? I would say it's actually positioned quite favorably within Latin America. And there are several factors. One is scale for an institutional investor of the size of GIC, we need scale and also liquidity for our investments in public markets. Mexico does offer a good number of listed names that are large, large market cap, liquid names, where our Public Market colleagues can invest in private markets. Mexico is a large market, a large economy, where, if the private companies aren't large yet, at least, they have the potential the white space within Mexico to grow into very sizable businesses. Second factor is the potential for long term growth. At GIC, we have a very stable capital base where long-term investors with investment horizon of 10-20 years. years. So it's very important for us to see the potential in any given market for long term growth. And Mexico—Michael and also Martin touched on this already this morning—given the young population, it has the potential really, to show this dynamism and this long-term growth that we're looking for. And we see a lot of the themes playing out in Mexico that we've seen in other not emerging markets, around financial deepening, growing consumption, growing middle class, more consumption of say, health-care services of education, and also more technological adoption companies that can penetrate the market further and also consolidation stories. The third factor, I would say, is, and this is quite unique to Mexico. There's no surprise. It's the proximity, of course, to the US market, the way it's positioned in advanced manufacturing with a very skilled, competitive workforce. This is a factor that, over the coming years, I'm sure, will drive a lot of growth and profitability in the region, and we would very much like to invest behind that thesis. And finally, Michael also mentioned this macro stability, of course, is something that we pay a lot of attention to —Mexico—it's all relative compared to, certainly some other countries in Latin America is quite, quite well positioned when it comes to FX volatility. Michael talked about this, but also the overall public debt levels. Having said all that, as I said, we have no top fixed, top down allocations. At the end of the day, it's all really the bottom up analysis. We need to find good companies with sustainable business models, with good partners, and we need to find an entry point where we can invest on attractive terms.

Carolina Millan 16:57

Mary, just earlier you were mentioning the recent meeting between Prime Minister Carney and President Sheinbaum. So what are some of the sectors that you're seeing as rising opportunities for investment following that meeting?

Wolfgang Schwerdtle 17:07

So it's a—there's a whole number of areas, but I would probably focus on, you know, on a few we heard earlier about, you know, about the need to develop greater infrastructure that you know that ties our supply chains together. And if you know, if we're doing more near shoring and on shoring, then you're going to need the logistics and the and the trade infrastructure, if you will. There's a great commitment that has been made between the two leaders around a maritime working group. So areas like ports, we're already seeing over many years of development of a rail that is connected between Canada, United States and Mexico, going right through Texas, of course, the Kansas CP rail. And so there's real opportunity to do infra, trade infrastructure, like ports. I would also say that that areas like energy dependability, energy security, there's a great need, not only as you know, as the economy grows here, like everywhere else in the world, you're

going to need more and more energy and we can certainly work in that area between Canada and Mexico and these are areas that you know that also provide a great investment climate because, because the predictability of the of you know of The environment that allows for those projects to happen will create real, you know, returns for investors in, you know, in areas like energy, in areas like infrastructure. So on energy, I would say there's probably an entire spectrum, right? I mean, from renewables, which Mexico is already doing quite a lot of but, but if you think about not only just growth of the economy, and if you're doing more manufacturing, advanced manufacturing, but we're also talking about ai, ai and technology is going to consume an enormous amount of energy and the data centers that it's going to need. And, and should we be looking at a broader mix, including perhaps nuclear, which you know, which is an area that that we have strengths in and we could perhaps collaborate. And then I think the final area that I would, you know, highlight is, is in the area of health and health technologies, there's tremendous opportunities for us to be collaborating. And I highlight those three because I think that, and there are many, many others, but they're, they're tangible, there are areas that meet a need and fill a gap that is that has potential here, and there are also areas where, typically, if you look at our pension funds and investors, they're real, they're real areas for investment that actual offer real returns. So you actually get the triple bottom line of, you know, of a great investment of meeting the public policy needs of the country and that it provides good public policy good as well.

Carolina Millan 20:15

Now I'd like to do lightning round for our investors, where I would ask you to each discuss briefly the sector that you're most about, on investing in Mexico, and why. Len, maybe we'll start with you.

Len O'Donnell 20:29

Yeah, as I mentioned earlier, you know, logistics. We're really been focused on logistics and infrastructure. And when I talk about infrastructure, it's really around logistics the way that Mary just described. You know, power technology, technology, adjacencies to real estate, things like that. So I think for us, it is one continuing on the path we're on which is serving Mexico City's growth and everything else. But then I do think, as I said earlier, this onshoring and nearshoring theme is going to continue to grow. You know, one of the things I did want to mention, I think that's really critical for investors, you know, for such as us, a US investor, or an investor like GIC, I think partnership is such a key component. I meant to touch on that earlier, right? We formed a great partnership here. We trade under the name of AC². And I think the biggest mistake people make sometimes is coming into a market hold and taking risks and not understanding the marketplace. So I think for us, it has been a slow build of a great partnership and then expand our platform from there. So I think, you know, there will be other things in the future. We may expand into other property types over time. But, you know, this is very similar to the way we grew and entered the European market. We focused on one product type and then and grew from there. So I think we see the same type of fundamentals here Lennon.

Carolina Millan 21:55

And just to stay on something you said, something we saw in Mexico in the previous administration is that there were not always so many incentives for the private sector to get involved in infrastructure and in other sectors like energy. How is your current view on that and how that would impact your outlook? Do you think it might change in the current administration?

Len O'Donnell 22:14

Yeah, I hope so. Right. I would say that this is true as true in the United States as it is in Mexico. Yes, the infrastructure needs in Mexico are a bit more profound right now. Like, we talk about AI, we talk about data centers. I mean, honestly, there's a focus on getting enough power to build a million square foot warehouse. Like, forget about, you know, a gigawatt of power to build an AI campus, right? So, you know, and power is, is a problem throughout the world, right, whether it's in Europe or or the US or here. But I think you can't, none of these countries can get there without public private partnerships. There's too much capital in the private sector, a lot of it, just like folks sitting on this stage that are prepared and willing to contribute to the development of that infrastructure and power, water, the things that drive an economy, and frankly, until you address that, you can't reach your full potential. So I am hopeful that the new administration is prepared to do that. I'm hopeful that the US administration, which is sending a lot of signals that it is open to that, and the commerce sector, others, are reaching out to the private sector to talk about that. But the need is urgent and and we're hoping, and I think only look, if you look over history, when things you know are of that scale, it's always taken private capital to get them there, and we haven't evolved the way some other countries have, such as Australia, or other places where there's been this, this public private partnership into infrastructure development. So I hope it's, it's on its way Wolfgang.

Carolina Millan 24:01

What about you? What's the sector you're most excited about in Mexico?

Wolfgang Schwerdtle 24:04

There are few, but if I had to pick one, I'd say it's fintech. It's a sector where we have invested extensively in Brazil, also in Asia, with good success, and the FinTech ecosystem in Mexico has really developed quite a lot in recent years and is now a very large and also vibrant ecosystem with hundreds of companies, from small startups to some unicorns. That's very exciting, and that's across a number of segments within fintechs, whether it's payments, including cross border payments, whether it's consumer credits, buy now, pay later, SME financing, whether it's digital banks, whether it's alternative wealth management platforms, et cetera, et cetera, or the banking as a service kind of. Kind of infrastructure layer behind it that's very exciting, and we think that this will continue generating very good investment opportunities for GIC and other investors in Mexico. Can I do a second one? Sure. Okay, this is under the sustainability thematic, which is an area where, actually, at GIC, we've created a separate group that invests in sustainability solutions. And here some mega themes now are, of course, around the grid, grid modernization, grid expansion, all the devices, services, software that has go to go into that, to expand it, to make it more resilient as well. Secondly, water and sanitation, it's also a segment where we have invested a lot. In Brazil, inclusion, including and water is a big topic in Mexico. I think there should be good options going forward there. And thirdly is generally adaptation and resilience. As you know, adverse climate events are increasing in frequency and severity, and so whether it's around building resilience, HVAC systems, whether it's not, again, the grid, making the grid more sustainable, more resilient, but it's around agriculture and food, that supply chain, making sure that that's more resilient as a climate changes in certain regions. I think there's a lot of work to do for all of us going forward, and we're quite interested in that in that area.

Carolina Millan 26:41

Thanks. Wolfgang, I want to follow up briefly about the FinTech angle. We've seen a lot of companies, foreign companies and startups, enter the Mexican market over the past few years with very high hopes, high expectations, about how fast they will be growing. And five years in, I think we look at some of them, especially the smaller ones, and it's been a challenging market, especially, and we drew a lot of comparisons with Brazil, where growth has been so fast. I wonder what's different about the Mexican market that is making it so challenging for these companies to really scale up?

Wolfgang Schwerdtle 27:15

Honestly, I don't think it's that different. I mean, Brazil also has hundreds, you know, like— not all of them are going to make it right. It's super competitive, not just amongst the fintechs. But of course, they're also competing against very well established traditional players that are also not just sitting there reacting, and—maybe one point would be, I mean, Mexico is trading a little bit, so that makes it harder, because there are some companies that are maybe Brazilian companies have expanded into the Mexican market. They're also already quite well established that the Mexicans will Mexican companies will have to compete against. So, again, not everybody's going to make it, but we have seen some tremendous successes already, and I'm sure we'll see a lot more.

Carolina Millan 28:08

Pablo, what about you? What are you excited about for investing in Mexico?

Pablo Sprenger 28:11

It's really hard not to repeat what Len, Wolfgang mentioned, but well, infrastructure for sure. So in Mexico and in Latin America, the infrastructure gap is almost painful. So it's, it's an opportunity, an investment opportunity, and is something that Latin American institutional investors should focus because it's part of our role to develop our countries. So that's something that we like as portfolio construction. It's also interesting because the yield curve of infrastructure project is a long one and very steep one. So to bring another opportunity or asset class that we like again, private credit. Private credit has a softer and shorter J curve. The issue is that we would love to see asset managers providing private credit to meet large companies in Mexico, to companies that are in the adjacencies of infrastructure and digital products. So as an institutional investor that will provide us a well source of a portfolio, construction and opportunities. Of course, in Mexico, we still were in the process of reducing the interest rate we expect now we are in 7.5 correct me? If I'm wrong, we expect to end the year in 6.75, 6.50. So probably the money will remain a little bit in the fixed income portfolios, but that will change, and we will need again, higher yields for our class. Clients, and that will drive demand to long term projects, more risky projects, and a comment to a FinTech situation. I think that a lot of startups started and funded themselves when the cost of money was zero. So it's super easy to have a business when financing is costless. Now those companies need to deliver on promises and start getting not only revenues but earnings in order to be sustainable. And you and we have great examples, fantastic examples in Latin America. But it's not for everyone. It's not for every company, because they're competing with incumbents with other companies. So I will see probably merge, of an emergence, of a couple of successful cases, and probably we'll see a couple disappearing in the short term.

Carolina Millan 31:07

Thank you. We know that, of course, investing in emerging markets is not easy. It can be a challenging space, and so for our next lightning round, I wanted to ask our investors here, what what do you identify as a key challenge that Mexico needs to resolve to unlock investment. Len, what do you think?

Len O'Donnell 31:26

Maybe you should have Pablo go first so I don't take his answers again, but...

Carolina Millan 31:31

Sure.

Pablo Sprenger 31:31

I would love to. We talk a little bit about Singapore. We have an office in Singapore. I was in Singapore a couple of months ago, and one very good friend of mine, I said, Hey, what an amazing country. Singapore was poor 70 years ago, but I mean poor, and now it's top three, probably in everything, the strongest passport. And I said, hey, I envy you. And he said, hey, but it's super boring. And I said, "Well, I would love to have a Latin American more boring situation, because it's really hard to be boring here in Latin America." And part of that is because we need to add for the investors, predictability and certainty, and that is, then for the rule of law and the enforcement of the rule of law, and that's something that we lack in Latin America and here, and definitely Mexico, we need to improve for investment capital, for capital flows. There's a saying in management and leadership culture, it's or beats strategy. Well, predictability beats protectionism. So it's— we need more predictability. Everything else we can. We can price tariffs. We cannot price uncertainty or unpredictability. And that's the biggest challenge that we have, because once we unlock that factor, we will start seeing significant inflows into Latin America and definitely Mexico.

Wolfgang Schwerdtle 33:08

Sorry, I have to jump in. It's not that boring. Singapore. C'mon.

Pablo Sprenger 33:12

I don't know. I was there for three days, and I love it. My Singaporean friend said that it was boring. It was a—

Wolfgang Schwerdtle 33:19

Let me know next time you go. Sorry.

Carolina Millan 33:24

I was going to ask something because you, you mentioned rule of law at the start of the panel as well. And something that that has been in a lot of discussions in Mexico this year was the changes to the judiciary system. But that also seems to have gone to a second plane as the tariffs and the geopolitics took on a bigger role. So is that something that you're paying attention to, how the judiciary is changing in Mexico?

Pablo Sprenger 33:49

Absolutely and—the countries has to be, have to be super careful. I don't know if there's someone from Peru or familiar with the Berlin case, but Peru, you have the economic and entrepreneurial and business people and the political so they don't care. It's political. Policy is one thing, the business and the economy something different, and it works, but we know that Peru will be much better off if both forces will be aligned. I think that is super relevant to look at what could affect the rule of law in the long in the long term. I think that it's not, I'm not an expert in policies, probably Mary has something more to say, but those are the things that for international investors, something you raise your eyebrow, you say, hey, what will be the end game of all of this? For. For now, we still believe that Mexico is an amazing market, and we are doubling down our prices in Mexico. But you need to ask yourself, what will be the case if everything is in the right situation?

Mary Ng 35:18

So just to jump in on that, I mean, and back to the first question of why the trilateral agreement is important. This is why? Because a free trade agreement that is now 31 years old, and the need to continue to have that kind of infrastructure and infrastructure that has dispute settlement that is that, that investors can rely on, that companies can rely on, and, and having a structure that that is just, it's open book, so you know exactly what the rules are. You know how they're going to be adjudicated and in the long term, it gives you the predictability, as you said, that you need. And if, if there was one thing that I heard a lot over and over all over again as a trade minister, was give us the rules and do that work that only governments can do, do that so that we actually have the environment to operate in. So for us as governments, you we don't do the business and we don't do the investment, I suppose we could we look at investments around public private but by and large, it's, it's, it's the private sector that does that. But what we can do, though, is we can work government to government to create the right conditions, to create the right set of rules. But the one comment I would say in this room, in particular, with businesses and with investors today, given the geopolitical environment that we find ourselves in, governments are very stretched, even with the best of intentions to do the work and to focus on the work of creating that condition. All kinds of things are happening. A war emerges, a climate catastrophe happens. Tariffs come into play. Governments are stretched. So I would say that today, it's even more important for rooms like this, for businesses and for investors to also think about, how is it that you could do your part to actually help governments be more successful in the work that they do, and to almost sort of hold them to that focus, because you can, don't underestimate how important your role is and what you can actually do, because you can really just do it. And I would encourage, you know, investors and businesses to take a bit of that approach and to also probably think creatively beyond what you would traditionally have had to do. Because I think that collaboration is more needed today more than ever.

Len O'Donnell 37:50

I just want to, I agree with that. I just wanted to add to I think that one of the most important things Pablo said was that you can't price uncertainty, right? The reality of this, the market does price uncertainty in emerging markets by looking for very high returns, right? So the whether it's government or industry or the business community or the banking community, anything that it can do to increase transparency, reduce that perception of uncertainty will bring down the cost of capital, and that cost of capital will drive lower. Cost of capital will drive economic growth, which will drive returns. So, you know, I think when, like, when we look at our industry, one of the focal points is, is when you talk about transparency, is a big word. Everybody likes to say transparency. We all know what we think it means. But for example, just data, right? Like there's very little organized data around emerging markets, as compared to the immense amount of data that's available in Canadian markets or US markets or European markets. So the more we can organize data, the more we can collect data, especially in the age of AI, you know, the more we can manage that risk. I mean things like the courts, absolutely, it's a big focus. And that has to come from government, right? But it comes from government pressure. And then, you know, I think the last piece of it that I sort of tried to tie a bunch of different themes together here is, I referenced the banking industry. You know, these gentlemen are more involved in traditional, what I would call private credit for us, you know, we have a fairly large real estate private lending business, and we think there's a long term opportunity in Mexico. But what's the missing piece for us is our businesses in the US and Europe are supported by deep banking relationships that support the underlying financing, and we haven't seen that emerge. So, you know, that's another way to lower the cost of capital, if the

if the banking industry gets, you know, more constructive in that area. So I think those all things come to, you know, under this big word transparency, that's really what I think it all ties together is, is reducing that uncertainty, that that Pablo referenced.

Carolina Millan 40:01

That's a great point. Certainly, data is, is a key topic that across emerging markets can be improved on. Wolfgang, what about you? What are you seeing as the biggest challenge?

Wolfgang Schwerdtle 40:10

Yeah, no, just to add to this point—of course, the uncertainty and rules and the clarity instability around that, it's not particularly relevant if you're investing for the long term, right? If you're going into an infrastructure project where you're putting a lot of capital to work, and you're doing it for the next 10-15+ years, you have to have certainty that along the way, the rules don't change, right? So clear rules, regulation, that's clear and stable, predictable is key. Is essential, whether it's in energy, in telecommunications, in sanitation, you name it, right?

Carolina Millan 40:52

And something that's interesting—because it hasn't come up, which I think maybe five years ago or so would have been a bigger part of the conversation—is a currency, no? And how the Mexican peso has become a lot more stable and resilient to different geopolitical swings, etc. I wonder if one of you would like to comment on how you factor that in, into your investment decisions.

Len O'Donnell 41:18

I think it's part of that uncertainty, right? I mean, for years, as Michael said earlier, you know, there were wild fluctuations, and these gentlemen are much more attuned to it than I am. But same thing with Brazil, right is, you know, you talk to investors and they, you know, either they're half their loss or half their return came from currency swings, right? So we've clearly seen that mitigate. You know, in our business, we mitigate in other ways. A lot of dollar denominated transactions, you know, borrow and pesos, invest in dollars, leases in dollars, things like that. But, yeah, look, there's no—you know, the question is, "Are we all ready to say that this is a permanent phenomenon?" I think that the Mexican fiscal house is in really good order. So there's reason for optimism. You know, by the same token, you know, in the since in the period from COVID to today, there has been a 20 percent swing in currency. So it's not like it's been nothing, you know, from \$1 standpoint, to go from 20 to 16 was no, you know, small, small thing. But it's not, you know, the the volatility that it used to be. So I think that's—I also think that's where the trilateral trade agreement, holding firm and growing, provides a stabilizing force, irrespective of what happens in the fiscal markets, because, you know, just the amount of trade and everything else keeps some balance in that equation. So hopefully you know that is a one risk that is reducing, but it's all part of that uncertainty that the market tries to price.

Wolfgang Schwerdtle 42:57

On currency, in the case of GIC, it's maybe a bit different from investors who are focused on generating returns in just one currency. I know US endowment that has to fund liabilities in US dollars or European PE fund that has raised the fund in

euros and has promised to deliver returns in euros. Case of GIC, our mandate is to preserve, enhance the global purchasing power of the reserves. Now that is a multicurrency concept. It's a basket, and it actually includes in our benchmark various currency so for private equity, for example, I have the Mexican Peso and the Brazilian Real in the benchmark. So we're kind of funded in local currency to a certain extent. And we would only sort of hedge deviations if there's significant deviations from that sort of basket benchmark composition.

Len O'Donnell 43:57

That's why he thinks you're boring.

Wolfgang Schwerdtle 44:01

Exactly.

Pablo Sprenger 44:02

I always expect not to get this question, because it's by far the hardest to answer. In our case, we have principally a global company, US-based but our Mexican and Brazilian operations and senior operations, there are in the countries with mostly local clients. So we don't have an issue with our clients. We have more issue with how we hit our earnings. But I want to comment Latin America, which is—so it's the risk, uncertainty, and the FX risk. I will give an example. You remember that six years ago that there was this huge social unrest in Chile, and the peso went from 750 to almost 1,000 and how the currency moves depends on the fiscal situation of the country, interest rate, how the USA is doing, it affects or what it's doing. But there's also this, like, political hard to how to price risk, but in the Chilean case, we press it, and 20 percent was because of political risk. So if we have countries that provide stronger political environment, I'm not going to be political but it seems that Latin America is going to enjoy in the next four years, a lot of countries from a market-friendly government orientation, well, we should expect stronger currencies. If we add a potential commodity cycle that we might some people say it started. Some people say it's not starting by the will. We will also see our courses going a little bit strong. And if you see more international investors, deinvesting from the US and putting money on global opportunities, well, you might see a couple of good years for Vladimir and currencies.

Carolina Millan 46:25

Mary, I'd like to close with you back to the big picture, the macro that North America is going through. You served for many years as a policymaker. You were on the front lines of the negotiations. So what lessons have you learned that you think that the current administrations should keep in mind for a conducive outcome for the USMA talks that will come next year?

Mary Ng 46:49

I mean, I don't mean to sound simplistic, but it is simplistic: We have to—it's hard—but we have to keep talking to each other. We have to keep working through it. We have to keep problem solving. I think that, given the context, it actually creates an opportunity. So the lesson has always been and will continue to be, look, these are relationships. We've got 30 years of it, plus, plus, and we've done a lot of great things together. And it's very easy to get caught up in externalities and narratives and so forth. But we do have to take a longer view. And if you if the view is that this relationship is important,

that North America is important, that we could do things together bilaterally—I remember, you know, each year we would trade, but we would, you know, we would co-chair the Free Trade Commission every single year between the three countries, and we always found a way to do our work bilaterally but also trilaterally. But the only way to do that, to get through the tougher parts is to resist the, you know, to resist the externalities and the noise that's out there, and keep working with each other and roll up your sleeves and do the hard things that are hard because they just are. But in that it's opportunity.

Carolina Millan 48:03

Well, thank you, Mary, Len, Pablo, and Wolfgang for being here. Would you please join me in thanking our panelists?

Announcer 48:20

We hope you enjoyed the discussion. The next panel will begin shortly.

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