GLOBAL ASSET MANAGEMENT IN TRANSITION: INNOVATION, RISK, AND THE ROAD AHEAD

Announcer 00:01

Please welcome the panel on "Global Asset Management in Transition: Innovation, Risk, and the Road Ahead," moderated by Richard Ditizio, CEO, Milken Institute.

Richard Ditizio 00:33

Hey, good morning, everyone! Good morning, and thank you for coming. We're here to talk about asset management. Can I get everyone's attention? Thank you. All right, this panel is going to discuss asset management, both the industry and trends. We have trade tensions, inflationary pressures, interest rate uncertainty, geopolitical...Can we get some quiet in the room, please? Thank you. All right, if we could shut the door. So given this backdrop, you also add to that the geopolitical conflicts and return-seeking, demanding clients: who wouldn't want to be in asset management today with all that going on? So Nicole, let's start with you: why don't you give us just a macro backdrop and hit some of the headlines that you see in the current investment environment?

Nicole Schmidt 01:40

First of all, thank you, Rich, for having me, and I'm excited to be here with the rest of my panelists. At Bridgewater, we have been deeply researching markets and economies for the last 50 years, and we believe right now, we are in a fundamentally different geopolitical and economic backdrop, which is critically important for investors. There are three main dynamics—interrelated dynamics—that are creating this new reality for investors. The first is what we have been describing and talking about in our research, as we are in a modern mercantilist period. So what does that mean? That means the last 10 years, where we've had relatively low geopolitical tensions, relatively low barriers to trade. Companies could go out and produce as cheaply as they needed to, which has kept inflation low, and we've now transformed into, basically, the polar opposite of that situation. We've got high geopolitical tensions. Tariffs are at all time highs, creating an inflationary environment, and we've had this shift from globalization, to where countries are now prioritizing their own sovereignty. This is creating a very different and very risky picture for investors. At the same time, we're going through a major technological disruption with artificial intelligence, which is having a profound effect on the economy. And the third thing—and I think this is incredibly important, and I think something that that we're all thinking about—is so what does that mean? If you look at most global portfolios, they are positioned for a world that has worked for the last 10 to 15 years. Concentrated in equities, and in particular in the US as we've gone through this period of US exceptionalism. And so what does that all mean? These are the questions we're wrestling with, and we think it's a critically important time for investors to start to think about diversification, and how you can best prepare your portfolio to be more resilient for the next 10 to 15 years, which is going to be a more volatile period. So those are the big, small questions.

Richard Ditizio 03:50

Little things we have to navigate. All right, Sid, let's go to you. So we hear a lot about this rapid transition occurring in the asset management industry: are traditional asset managers and insurance companies becoming more alike than different? And against the backdrop, when I started my career on Wall Street, there was an index called the Wilshire 5000, which was the top 5,000 companies. Now there's like 3,400 or so. There isn't even 5,000 to choose from. So when you think about the changing industry and the public-private dynamic, talk to us about how you think about that.

Sid Sankaran 04:27

Yeah, I think this is probably the number one topic that insurance companies and boardrooms on the asset management side wrestle with these days. If you think about the insurance industry, obviously, in the life-insurance industry, you're writing longterm policies to support people for their savings and retirement, and you're providing them a return, and you need to generate investment returns to deliver both for your policyholders and also for your shareholders. You know the trend that has occurred that's pretty stark post-financial crisis, is you're seeing a blurring of the lines, and that blurring of the lines is coming in a couple of different ways. First, you're seeing alternative asset managers invest or own outright insurance companies. So they're looking a lot more like insurance companies. I think, second, you're seeing insurance companies attempt to kind of recommit to the concept of third-party asset management. And then separately, there's a subset of insurance companies that are bifurcating that altogether, that are getting out of the asset management business and thinking very carefully about partnerships. You know, a lot of this, I think, relates to the concept of private capital. Because if you look 100 years ago, insurers were the very logical financiers of private enterprise. And I think there's a great blurring of the line between public and private. If you think about equity markets, you know, probably the ten to 15 biggest private technology companies are certainly, you know, among the biggest in the world, and would be in the Fortune 50. So certainly that raises a question about the role of investment in venture capital and private equity. And in debt markets and you know, if you think about the credit markets, clearly, public and private credit are overlapping and blurring in very unique ways. And, you know, public, public credit, in my mind, is a very commoditized space now, and private credit, you know, is beginning to move towards that in terms of an asset class or a source of just beta, I think, not alpha, because all of these, you know, private credit managers are all just passing around, and participating in, the same set of deals. So, you know, that's a long way of saying private both equity and credit will be important asset classes for insurance companies, but how they operate and how insurance companies participate in that will change. You know, in my own personal view, I think in 10 years, I think it's very hard for insurance companies to compete in the asset management business and the third-party asset management business. I think maybe a handful or a couple of them might have the scale and people and talent to win. But I think in the long run, what you'll see is—you'll continue to see—this, this merging of alternative asset managers and insurance companies. And you'll see also some insurance companies get out of the asset management game altogether and target much deeper, more strategic partnerships with asset managers.

Richard Ditizio 07:34

So, Tim, I want to bring you in over at the Pennsylvania Municipal Retirement, I want to talk about correlation. And how do you think about traditional views of asset management and the various asset classes and the diversification they afforded against today's backdrop?

Timothy Reese 07:54

Sure, thank you. For the audience, PMRS is a 51-year old defined-benefit plan. It operates in the Commonwealth of PA, we operate and we compete as a defined benefit plan. We compete against others who go after, you know, a population of police officers and firefighters. For us and for the plan, it pretty much for the 40...40 something...maybe 50 years, operated very conservatively, and it was basically equities and fixed income. Today, we had to—today, meaning in the last three years—we looked at the portfolio and we saw—and we're concerned with the concentration risk that's going on—specifically US equities and tech stocks, and what we what we wanted to get ahead of was what we felt would be some headwinds that did shape out in '22, and decided that we needed to look at how do we seek less correlation to equities. We already made an investment in opportunistic credit. We got lucky. We got ahead of that. We brought in our fixed-income portfolio so we weren't looking to get more, you know, fixed income, and opportunistic credit, what we did, and we went through a series of education with our stakeholders at three years to talk about opening up the private market. And that looked like, today, the fact that we're looking at private infra and private credit. It took—it's a journey to get there, because we wanted to, again, educate our stakeholder community that this is a good way to kind of move ourselves away from a traditional...but at the same time not... with an appropriate risk appetite, not sacrifice our position. Our position, is we're over 100 percent funded, and we have a 5-1/2 percent hurdle. So getting in the private markets isn't about the fact that we're trying to increase our funded status, status. We're trying to figure out ways, how do we prepare for this great unknown, and the way that we feel like we can sort of continue to diversify our portfolio.

Richard Ditizio 10:09

And when you thought about entering private markets, given that in the US, there are more private options than Taco Bells, tell us about the process, like, how did they find you? Or how did you find them?

Timothy Reese 10:21

So in the private markets, it was a discussion with all our stakeholders. So that would involve our consultant. We have a general consultant. My background coming into the industry, to run PMRS, I came from the private market, and this is my second stint at a turnaround. PMRS was a turnaround as a defined benefit plan; I was brought in roughly five years ago, so that knowledge was sort of already there. So we...but we knew that we could not take our board there right away until we fixed some of the other issues that we had. And in doing that, how we decided, say, between all the different asset classes out there, in private, private equity, etc, what we felt like is, looking at that we could get into an evergreen structure that would both—so on a US side private, we were looking at a domestic private credit strategy, but on an infra we're looking at a global strategy. The way we're going to place our bets, is two managers. And we're looking at, how do we approximate like core, a core strategy with the evergreen, and can we get some differentiation between two managers and how they view, where they invest in this, in the marketplaces that we describe?

Richard Ditizio 11:36

Okay, so Adrian, there's this constant debate of active versus passive. And as Nicole mentioned, given the concentration and outperformance of US markets providing data, what are you at UBS advising clients to do relative to how they think about active versus passive?

Adrian Zuercher 11:54

So I think when we when we manage portfolios for our clients running around 270 billion in discretionary assets, we try to combine both. I think passive is a very unique and very cost-efficient way to gain exposure, beta exposure. But if you think for the last probably 10-15 years, we had, as was mentioned at the beginning, we had extremely low interest rates, which led to a sort of revaluation of equity markets since 2009. Since the great financial crisis, you have seen multiple expansion. And I think the easiest part of that trade on simply getting beta in the portfolio is probably behind us. So we still want to capture, of course, part of that with ETF, but we mentioned concentration risk. Today, the 10 largest stocks in the S&P 500 are around 40 percent. Even back in 2000, when we had a very concentrated market already, it was 27 percent so even compared to 2000, which was one of the bubble, a big bubble, we have a much more concentrated weight nowadays, and I think you want to steer away from that. So definitely, there's need for active managers. There's need for diversification. I do believe the MSCI World, as a market-cap weighted index, is probably not the right representation of how you should be positioned going forward. It's a backward-looking approach where the US, of course, has done exceptionally well and gained 70 percent of weight—or more than 70 percent. 25 years ago, it was at 50 percent, and if I look ahead, almost two-thirds of our population living in Asia, we see the economic center and importance shifting towards the east. Through the geopolitical risk, there's probably a rerouting of some of the trades pattern, and we actually start to see the rise of the middle-income class here in Asia. So I want to capture some of that, and that's not represented in market caps at this point. And so we start to diversify away. And there's two ways to do that, through asset allocation. So not rebuilding the MSCI World, building something smarter, but then also using active managers, because even within the indices, we have a very concentrated risk on, if you look at the top five stocks, for example, and while they're still delivering earnings, I do believe that, particularly in medium and smaller cap, there are more opportunities coming up. As mentioned, there's a lot of new trends that are coming up from AI, a set of middle-income class in the emerging market space. And all that gives tremendous opportunities if you have a good stock-picking approach as well. So we try really combine both these approaches.

Richard Ditizio 14:54

So Nicole, let's go back to you how, how is Bridgewater thinking about the way it partners with clients and other firms. You came to Singapore a few years ago. What was the Asian dynamic that excited you to come here?

Nicole Schmidt 15:08

Well, I had been covering this region for about seven years before I moved here. And covering the region from the region is incredibly important. I think it's incredibly important to experience and live what your clients are experiencing and living. And Singapore is a fantastic place. So I moved here three and a half years ago, and I think I'm only came for two stays of—I don't know—seven, seven to 10, but I'm fortunate that at Bridgewater, we get to work with the world's largest, most sophisticated investors every day in this region and globally, and a lot of the things that we're talking to our clients about, I think, are very aligned with what Adrian was talking about. And it all comes down to there's a word that I've heard used here a couple of times throughout the conference, which is "resilience." Resilience can mean different things in different contexts. When we talk about resilience with our clients, it's what can you do to more effectively position your portfolio to achieve your target returns? How do you narrow the range of outcomes? How do you ensure that your drawdowns aren't experienced for as long or as deep? And many of the conversations we're having, I said, again, very aligned with what Adrian said. How do you think about geographic diversification? This is more important than ever. You think about the geopolitical tension that we're experiencing, what that means—you don't know how that's going to shake out. Asia in particular offers a really great opportunity to start to diversify. Also talking about diversification within asset classes and so fixed income. You talked about fixed income, I think you've seen most portfolios go from something like 30 percent allocated to fixed income down to 15 percent over the last 10 years. That made sense. Yields were low. We're in a different environment right now. I think fixed income offers a really great opportunity to diversify, and things like inflation protection, most portfolios that we see and investors that we talk to are not prepared for what's going to be probably a longer inflationary environment. So thinking about inflation protection and definitely alpha, I think the environment is ripe with alpha opportunities, and so finding good, uncorrelated alpha wherever you can find it is extremely important, and will be extremely important when I think the returns from beta over the next kind of 10 to 15 years are going to be probably a little bit less reliable. And so that's what we do when we think about partnering with clients, like we have our own alpha strategy. We have one process that we've built out for 50 years, and then we take that one understanding and we apply it both in our uncorrelated alpha strategy, but then partnering with clients on how to make their portfolios more resilient by building custom solutions that help fill those gaps, whether geographic or within asset classes.

Richard Ditizio 18:00

Stay on that partnership notion. Sid, how do you think about when you're looking at creating successful partnerships? How do you think about risk management, and what role that plays? And are there some examples you can give us from success at FWD Insurance?

Sid Sankaran 18:15

Yeah, I think if you look at the insurance industry—and everybody has mentioned this at some point—it's coming out of a period which was low interest rates and low volatility. And so, broadly, if you were to characterize what insurance companies did, they obviously had to search for risk. How did they search for risk? They had allocations to real estate, largely commercial real estate, structured credit, and alternatives. And "alternatives": I define that very broadly as ranging from hedge funds, private equity, venture capital to private credit. I think as you now move into an environment which is going to be higher interest rates, higher inflation, and higher volatility, you're going to need to be much more disciplined in the asset allocation and risk- management process. It really didn't matter for insurance companies what they did on the investment side, to be honest, for the past 15 years. Everything seemed to, quote, unquote, work as a rising tide, it kind of lifted all boats. And so in particular, when you think about the sources of return I thought, you know, there are certainly three things that are big on our mind in partnering with people. First, interest rate, risk management. I think as we look at sovereign credits, is anything really risk-free anymore? And that's a big question as we think about this trade-off between governments versus cash fixed-income when we think about partnerships. So that's obviously one almost discrete question in the kind of public fixed-income space. The second one in successful partnerships, I think, is around credit and private credit. I think there's going to need to be very deep relationships with private credit providers and a much more defined buy box around risk appetite for people like insurance companies and partnering with private credit asset managers. And the third is going to be alternatives, you know, low interest rates. Obviously, there's been an incredible benefit from low interest rates and leverage to private equity and alternative asset managers in the last 15-20, years. High interest rates is going to change that dynamic, and so creating the right portfolio construction with your alternative asset manager, probably a smaller set of partners with deeper more strategic relationships is really the path that I think will work with regards to creating partnerships. And I think, you know, for an insurance company, that'll be different from what I call the very broad kind of "peanut butter or mayonnaise" solution that has existed, you know, up until now.

Richard Ditizio 21:02

So I want to shift gears. We are in the early stages of the largest wealth transfer in history. And on the good news/bad news front, I read a report that 80 percent of the recipients want to change providers, not for anything that the existing provider has done incorrectly, just to establish an identity "away from the parents." Well, and also, for the first time in history, the majority of those assets will be controlled by women. So how, given the size instead of UBS, how are you thinking about advising clients and getting your proportionate share back to that, but understanding that dynamic as it unfolds, because it's estimated to be somewhere between $70 to $80 trillion

Adrian Zuercher 21:45

It's a very good question, I believe. So first of all, what we try to do at UBS, we try to be a prudent investor, so protect the assets and grow it. And what we have seen, of course, if, particularly if it's first generation, these are entrepreneurs. They know, they know how to take risk, and very often they have approached their private investments quite similarly, quite concentrated-risk stock picking. It's less about asset location, and as these assets are getting transferred to maybe the female side, but also second generation, we start to see a much more different approach, where people are looking for a more diversified portfolio, thinking about sustainability as well. That's a much bigger topic, with second generation, but also female investors, and this transition that we actually start to see is that they're looking for much more holistic solutions. And one of the big shifts that we see within the wealth industry, of course, is also from public into private. So if you want to really build optimal portfolios—very well diversified portfolios—you want to have as many return drivers as possible, and with evergreen products, which have become much more popular in the last couple of years, we see that some of these new investors—who try to be more sophisticated, maybe first generation—they're subscribing basically to this shift where they blend in private market investments into their public investments in the portfolio. There's a bigger shift going on. It's probably the biggest shift I see currently in the whole wealth industry: including private markets through evergreen product, through evergreen products. That's a big topic. And then I said the sustainability part might be not the most attractive investment theme currently, but I do believe that the requests we actually get and the intentions we actually see, particularly from these newer investors, are definitely drifting into a more sustainable part. So I do believe there will be a revival at one point where we start to see that stewardship ESG become a bigger investment topic, as well.

Richard Ditizio 21:45

So, Tim, back to you. We've talked a little bit about this prolonged period of American exceptionalism. As I travel the world, the vast majority of assets of investors seem to be allocated to the US, given the depth of the market and just the performance it's had. Are we sunsetting that period? And if so, what replaces it?

Timothy Reese 22:18

Well, I think the concept of American exceptionalism is under...it's under stress right now, given all the things that are going on geopolitically and whatnot. But I'm reminded when I think about PMRS, I have to think about it from my plan standpoint, and the fact that I represent 1,000—almost 1,100—plans in a Commonwealth. Again, we're the largest in the Commonwealth, providing these services. So I have to think about not just today, but we invest over a 20-year horizon. So that's through multiple presidential cycles, multiple things. So I'm not—when I think about our diversification, our portfolio construction, it goes along with some of the things that you're hearing on the stage, which is, you know: Where, if you need alpha, where you're going to get it from? Beta, how is that going?...to how we're going to align that in our portfolio? What level of—how much domestic equity? Because we're always going to have US equities in our portfolio, it's just a matter of when we seek other correlations. Where can you get those returns? I'm here in Southeast Asia because my stakeholder community felt it was important that I come and I see what the potential could be in the growth of this area. If I'm investing in global infra—right?— as a way to kind of...kind of diversify, then these are going to be, I believe India, Southeast Asia, are going to be consumption led, sort of growth areas, along with other things yet to be seen around AI, tech, and those other things. So for me, it's getting a little bit ahead where we can see managers who have experience in this...this region of the world, and figure out how do we participate as a plan back in the Commonwealth of PA. So that's...that's how we look at it, from the idea of, we don't think America is going to go away, but we also think there's a lot of opportunity that's going to happen outside of the US, and we want to be part of it.

Richard Ditizio 26:36

So let's talk a little bit about the asset management industry itself. Nicole, Bridgewater is celebrating, I believe its 50th anniversary. I think that's a rarity, given just the thousands of firms that are actively managing money, and how many probably won't be around 50 years from now. So I think there are two parts to the question. One, this notion of radical transparency, which is so endemic to Bridgewater. Tell us how, from a cultural perspective, that has been part of the DNA for such a long time? And then, also, just forecast for us, like, what changes you see afoot in the asset management industry over the next, say, five or 10 years?

Nicole Schmidt 27:15

Our culture is unique, and it's really been core to our DNA. It's based on a couple of things: radical truth and transparency. Right? It's getting...and it's a meritocracy of ideas. We really just want to get all the best ideas on the table, no matter if you're the most senior person, no matter if you're the most junior person: it's like the best idea should win. And we also shouldn't shy away from things that aren't going well, and that's critical to be able to continuously evolve and loop. And that has...we've been that way since the very beginning. We continue to be that way. It's definitely not for everybody, but I think...you know, I've been at Bridgewater for 16 years. There's a reason I've been there for 16 years. It's because it's a place that has made me a better person, a better professional because of that, and it's also been the thing that has made us survive for 50 years, right? You have to have an investment process. You have to have an edge in markets, and the way to do that is to constantly be staring at that thing, having people point out problems, and ensuring that you're continuing to evolve that process. So we've been able to build upon kind of 50 years of understanding, and have people make sure that we know how you can continuously evolve that and make it better. It's not for everybody. But again, I think those who find the value in why that makes you better—why that makes us better as an organization—has stayed there for many years. How do I see things evolving in the asset management—asset management industry? I think there's, there's probably three key things, I would say. One like, this is going to be a difficult period ahead, and I think you're going to see differentiation among asset managers: one, with those who have a process that has been time tested, and that can really take everything that's going on and be able to use that to generate alpha in markets. And the more you can do that, I think the more successful you're going to be. The second thing is partnership. Providing good, high-quality returns is extremely important in asset management. I don't want to downplay that: like, quality return streams are important, but so is partnership, and that's—we've always been rooted in those two things, right? Providing good return streams, but partnership to your clients, and I think being able to partner outside of just the specific...specific strategy that clients are invested in with you, and really be a true advisor to your clients. Like, our clients are struggling with so many different things, whether it's how you incorporate AI, how are you understanding what's going on in the geopolitical landscape? And so being able to partner with your clients, kind of from the top down portfolio perspective, is what really—I think—will differentiate asset managers relative to those who are just a simple return stream in the portfolio.

Richard Ditizio 30:10

So we did make it 30 minutes almost before someone said, AI. So now we'll pick up on that. Tim, I'll go back to you. Do you—when you think about all of the aggregate economic promise of AI, does it justify the enormous amount of money flowing into the space at these valuations? Or do you think there'll be some people that get burned?

Timothy Reese 30:31

Well, thank you for the question, because it's something I had to think about. And I want to kind of do something and do it in a linear time frame: mainframe, networking, client service, cloud computing, software as a service, apps, AI. That's been the 40—50-year transition of moving from bespoke business operation systems, off prem— into prem— back off prem. Now the promise of AI that I think is going to be—I have a bias to AI in a sense that the promise of it as a ubiquitous sort of resource—almost like someone mentioned the word "electricity" the other day. It can...it provides a lot of promise, and you can be...and since it is both a product, a tool, and a market, you could play it anywhere along the spectrum. You can be on the side of Nvidia. Or are you going to be inside as a manager, choosing companies that you think have the right culture? That, I think, is going to be a big differentiator: those that know how to utilize new technology and unlock it. There is a big component, I think, going on in this conversation that also coexists with AI. As I just said, it's leadership. Right now, I think in this time of uncertainty, that's the thing that we're paying the most attention to, is leadership. And have you, what is the experience that you've had? If you've had your experience and your whole career has been in the last decade. I'm sorry, there's a whole 'nother realm that happened way before that. We went through high interest rates, and we went through market-cycle turmoils, we went through the dot.com bust, we went through all these other cycles. So I think when you take the promise, there's going to be winners and losers. That's what is going to happen. That's a marketplace, but I do think the overall opportunity condition set to use AI will be great. We're going to look, we're looking at, how do we do this in the management of our liabilities, for our clients, because we have both the assets and the liabilities, and for us, what's important is that, there is a way that we can service our clients in a way that produces less errors. Less errors, and I think, in a way that makes it more efficient, when someone wants to retire, that they can actually fill out a form correctly, get it processed, and make sure that we get the monies distributed into their account without any—as frictionless as possible.

Richard Ditizio 30:32

And Sid in the insurance industry, do you see AI playing a role? A, and B are junior people, and this is for all of you in your firms, nervous that AI is going to take away your jobs.

Sid Sankaran 32:16

Well, I think on the first question, I do, but I think it's a process. I mean, AI, like all technology, it's no panacea. So I think what the real opportunity in the near term for the insurance industry is workflow. You know, where you have clean workflow? I think the potential for one data scientist and two engineers to reconfigure those workflows with AI, I think, is, is really, really profound. But like most companies, I don't think, you know, insurance is a highly regulated space, and I think the path will be slower than people think, but I think at the end, the terminal state will be very, very impactful. You know, on your second question, I just use an example, and my short answer is "yes," but I think the example is perhaps more telling. I was getting ready for our first earnings call, and I asked ChatGPT to modify my Q & A document by reviewing all our competitors' Q & A's that they received on the earnings call, and also to make recommendations to our press release and earnings presentation by flagging any information that competitors may have disclosed, that we may not have disclosed, and within five minutes, I had that list. Now, normally, what would I have done? I'd send two analysts off on some track, and two days later, I would have gotten an email with five documents and a lot of explanation. So yeah, I think the nature of work is going to change very, very dramatically. I think new companies will emerge over time. And so I think there's, there's going to be a lot of meaningful change in the next three to five years, for sure.

Richard Ditizio 35:36

We touched briefly on geopolitics, and it does feel like a very fractious time right now in the world. So Adrian, tell us: are clients coming to you and asking for some navigational tools around this geopolitical backdrop.

Adrian Zuercher 35:49

It's definitely a key topic. I think it's for all of us, and that's probably something that will shape not just the next 12 months, but probably the next 10 years. On the way we should think about portfolio construction diversification. I think one of the key trends, of course, we see, particularly for Asian clients, is to think about the FX diversification. How should they think, traditionally pure US-dollar investors? And I do think we have seen a structural decline on the dollar side for not just one year, but actually for the last 20 years. I think if you go back to 2000, FX reserves globally were around more than 70 percent; to date, it's a bit less than 60 percent, so we actually do see that with the rise of new economies in the West and, particularly also, the East, that trade patterns are shifting. FX reserves today, I said it's roughly, I think 58 percent. The US is 25 percent of the global economy. It's only 13 percent of global trade—or actually, even less—it's around 11 percent. Even 10 years ago, it was 14-15 percent of trade. So as we start to see this political or, basically, this economic importance shifting more Eastward, we see India, for example, growing in the league table. Naturally, some of these countries will start to trade among themselves with their own currencies. They need less and less dollars, and, therefore, we start to see, sort of, the structural decline. And there's maybe a tactical element to that, as interest rate differentials are now converging, probably over the next couple of months, or two years, and not my way on the US dollar. And a lot of our clients are strategically thinking on how they should actually approach that part. Interestingly enough, I get a lot of requests on, sort of 65 percent US dollar exposure and 25 or 35 percent of different currencies. And then the question is, where should I actually allocate that? And how much should I have in Europe? How much should I have in Japan, and then some of the merchant market currencies? I mean, I want to say I believe that the US dollar will stay, for the next couple of decades, the main FX reserve currencies. There's nothing that will rival, basically, the dominance of the dollar, and no other central banks want to actually have the burden of having the major reserve currencies on their shoulders. I think it's the US that can actually stem that. But some of the trends definitely will mean that some of the central banks are shifting slightly out of the dollar and maybe shifting towards the 50 percent and I think ,therefore, there's this structural decline we see on the dollar side. And that's definitely something where a lot of clients are thinking strategically. And I think that's something completely new. I haven't had that for the last 10-15 years, so that really has emerged over the last couple of months.

Richard Ditizio 38:58

Okay, so we're almost at the end. I want to take advantage of this great depth of knowledge and perspective on the stage and leave our audience with a couple of things to think about. So let's just go down the line. I want you to tell everyone what's the one risk that you most worry about? And then on the other side, what are you most optimistic about? Be it geography, asset class or whatever it might be.

Timothy Reese 39:20

Well, I think risk is something—the thing that we had recently happen in a boardroom meeting was, how are we protecting our assets for our clients? Because they're getting more—as our plan gets more exposure electronically, you know, through the internet and/or our website. How are we securing our identity for our clients? I mean, identity theft is a huge issue for us. It happens, you know, in a large set of ways. We've been fortunate. We haven't had any major issue, but we are concerned with that. And that's something that we've been investing in and it's taken quite some time for us to put some new software procedures into our system. So that's a risk area—a big risk area—for us. On the opportunity side, you kind of heard me talk about the opportunity here, the opportunity that we're going to take and put somewhere in the neighborhood about just shy of half a billion dollars, and we're going to place it into private managers' hands for the first time. In the sense of private markets, half of that is going to go into a global infra and that's a major...that's, that's a major mindset shift from my board, to be able to say we believe that's going to allow us to continue to meet our goals long term.

Richard Ditizio 39:37

Okay, thank you. Sid?

Sid Sankaran 40:41

Yeah, probably a personal view. I think in my lifetime, there's we've seen a lot of progress from trends in demographics, globalization and technology. Clearly, I don't have much reason to be optimistic about globalization anymore, and so I think that, you know, the the trends in demographics, and that intersection between demographics and, you know, this, this fragmentation and globalization is obviously the thing that, you know, I worry the most about, and it has potentially a lot of unintended consequences that you know will probably manifest themselves in higher risk and higher volatility over over time. So I—I concur with with Nicole that you're going to need to prepare yourself for more volatility in investment returns and investment performance. From an optimistic side, yeah, clearly, I think technology and AI—I think we're going to see so many new companies, so many new ways of working and, fundamentally, technology is supposed to be deflationary, so offsets all the inflationary pressures that we talk about. So I think there'll be a lot of opportunity for innovation in the coming years there.

Nicole Schmidt 40:41

I'll try to be very quick. So from a risk perspective, look, I think it's incredibly important in investment management to stay true to your values, to your integrity, and the way that you work with your clients. It's something that we're always thinking about. And so, you know, in a world where things are changing so rapidly, I think it's so incredibly important and core to stay true to your own process. So that's just something to be aware of. And then the second thing, in terms of what I'm excited about, there's two things. One, this environment is going to be ripe with alpha opportunity, so I'm really excited for us to be able to take advantage of that and provide really good and correlated returns to our clients, and I think we have a process that's set up to do it. And artificial intelligence: we are at the forefront of what is happening in AI, and we are using that in our own investment process. We have a strategy that's solely focused on investing from an AI-first perspective, and that is providing really good insight into how we're using that in the rest of our investment organization. And so I think that is something we are extremely excited about, and it has the ability to kind of transform the investment-management industry.

Adrian Zuercher 42:18

I guess for me, the biggest risk, at least from a client perspective, is, I do believe the next 10 to 15 years will look very, very different than the last 10 to 15 years. I mean, we see demographic shifts. We see technology which will disrupt and most likely bring an increased productivity, but also change in how we do things. The debt levels are, in some areas, probably unsustainable and have to be adjusted, so we will be in a very different investment landscape. And the biggest risk I probably see, that clients are not seeing that some of these shifts that we actually do see and expect need a different approach on how to manage money, how to allocate, how to think about risk management in a portfolio context. We of course try to help them, but at the end, they have to move by themselves, and I think that's probably the biggest risk—that they stick to what they have done. Opportunities, we have such a large book, we have 6 trillion. We are, on the wealth side, twice as big in Asia as our next competitor. And the opportunity is really building strong relationships with partners, asset managers, private market houses, hedge funds, and giving access basically the best products, capturing some of the alpha we actually discussed, and not just plain beta, and basically build very strong portfolios that, sort of, can outperform and be less correlated to the overall market.

Richard Ditizio 44:40

Okay, all right, well, we're just about out of time, so I want to thank the panelists for all your insights today. And enjoy the rest of the conference.