

GLOBAL INVESTMENT OUTLOOK

Haslinda Amin 00:05

Good morning. Thank you for joining us. There is every reason for the markets to be in chaos. Tariffs are at the highest levels in about 100 years. Growth is slowing. Several central banks in the world, including the Fed, have been under constant pressure. We're also pulling back on climate commitments. Add to that, surging debt, surging deficits, in geopolitics, surging tensions, especially in the Middle East. Yet here we are global equity benchmarks at the highest or close to the highest levels. In fact, Korea this morning and the S&P has had a record high for 28 times this year. Treasury is looking pretty good. Private markets looking pretty good too, ain't too shabby, we're seeing inflows. But the likes of—Howard Marks says that you have to be careful, there could be a bubble brewing. After all, we didn't see the dot-com or the housing bubble bursting. So, for investors, how do you position? How do you make sense of the current investment climate, and how do you deploy capital in the next 12-24, months, perhaps for the longer term, if you can talk about the longer term these days? Let's get perspective from our speakers today. Bryan, let's start with you. It does feel like everybody's partying like it's 1999. Is it justified?

Bryan Yeo 01:49

Do you want a bull or bear? No. So I'll kick off with what we believe is one of the biggest structural themes we will see in our lifetime. And I know many have talked about that, and no surprise, it's artificial intelligence (AI), it's real. We are seeing it transform how companies are doing things, albeit at an early stage, and we're probably only in the first or second innings. The risk, of course, like you mentioned, is that we could be running ahead of ourselves, at some point. Market expectations could be way ahead of what the technology could deliver. We're seeing a major AI capex boom today. It—just going back two years, it was \$200-300 billion and now the run rate is \$400 billion in the US, just amongst the hyperscalers. So the capex boom is real. It is masking some of the, you know, potential weaknesses that might be going on in the economy. And we can be—we can talk about that afterwards, but this, this AI theme, is one that we are very much focused on. The question is, where is value being created? So in the public equity space and the private market space, we are invested across the value chain in AI, but we have a framework to think about it. So we think about it in the form of enablers, monetizers, and adopters. And where we have been focusing, much of the investments in AI has largely been in the enabler space. These are the semiconductors. These are the AI data centers. These are the hyper scalers. So that's where value has been growing as a result of the demand, but over time, we expect the value to transition to monetizers. These are the AI natives, the startups whose core DNA is just AI, and using that to deliver products and services, and then the

adopters, and the adopters are going to be, typically, the incumbents, the listed companies, who can successfully adopt these new capabilities to reengineer themselves. But that's where we are also concerned, because our expectation is that in the next three to five years, there's going to be a high velocity of value creation, but also value erosion or destruction for those who fail to evolve.

Haslinda Amin 04:08

So the arguments that Bryan has highlighted, right Sandra—we've had them before. There's a lot of momentum, and there's fear of missing out. The trouble with momentum is that momentum mask risks. How are you looking at that?

Sandra Cheng 04:25

Yeah, I think the market is definitely flip flopping between fear and fear of missing out (FOMO). And how we're looking at it is we're asking investors to kind of really think and just take a step back. The environment has changed dramatically, right? So the way we think about investing, will have to also adapt accordingly. The world is so much more connected right now, and how we invest, when we look at it as well, we have to take a much more holistic lens, looking at both macro, fundamental, the intersection of that, and then being anchored with some of the key thematics that drives the long-term secular growth. And so when we look at, for instance, two things that keep coming to mind when we talk to investors out here is, number one, is fixed income, a still very good diversifier to your risk assets? Number two, is sustainability going to sacrifice returns? So those two questions, I think when we talk to investors, is, instead of thinking it in isolation, look at it in terms of the outcome you're trying to generate. So if you're trying to generate that stable, recurring income, you're trying to create sustainability without sacrificing returns. There are other ways to look at it. So you have to kind of expand kind of your entire investment toolkit to be able to generate that particular outcome. So we've been having quite interesting discussions with some asset owners here about using infrastructure debt as a fixed income substitute to deliver that stability of return, that portfolio resilience, the correlation, as well as the inflation protection as well.

Haslinda Amin 06:02

Tony, same playbook? Tweaking? What are you doing?

Tony Minella 06:09

Listen, I think to touch on what Bryan said about AI. I think he, you know, he talked about enablers. He talked about companies that are that are that are developing AI. I think you need to be a user of artificial intelligence, and we're pushing it across our organization on a daily basis, because if you're not growing, you're dying, and if you're not adapting and using the technology that's there at our fingertips right now, then, you know, you're going to get crushed. And a lot of companies we've invested in debt, and a lot of corporate credit, as has, you know, Todd's firm, and Bryan and, you know, within the maturity of many capital structures that are out there that you know,

there is a five year, seven year maturity, and, you know, who knows what the world's going to look like in those five or seven years? And if the management team is not adapting and using technology in a way to further their business and reduce their costs, I think they're, you know, they're in trouble. And here we're now in a cycle where, you know, the Fed is starting to lower interest rates. And I wonder, you know, traditionally, the impact of lowering interest rates is, you know, people go out and they hire more, they create more jobs. I don't think in this cycle we're going to see, you know, jobs increase in the way that we have in previous cycles, because with one incremental dollar of capacity of to do invest, I would rather go out and buy tech than hire a new person.

Haslinda Amin 07:53

Todd, you did the same panel 12 months ago. What's changed?

Todd Sisitsky 07:58

It's been a quiet year. I don't know. It's—I mean, it has been quite a ride. I think it was the—you referenced this—it was the, the worst 75 day start to the market since World War II. We've hit, I think you said 28 new highs. I think you had the biggest single one day increase in the VIX and decrease in the VIX in the last few decades. It's, you know, it's been, it's been remarkable. I would say through all that, the underlying performance of businesses in the corporate world has been pretty strong. You know, our portfolio, I think, on an LTM basis, through the middle of the year, was up on an earnings basis, 23 percent on the private equity side. So very steady performance. There are some signs of stress, particularly on the in the lower end consumer, which I think you can't ignore. To me, the net of this is you really have to stick with your playbook, and you have to be very intent on it. And I think the FOMO were was certainly something that resonates. I think FOMO is one of the most dangerous things you can you can fall prey to in investing. And for us, during a period like this, you don't change the playbook, you just sort of bear down on it. So we've had a cycle and a half on the private equity side of a fun cycle and a half where we've had multiple compression built into the base case, just an expectation that you're going to have to outgrow and outperform, not because you're in a good neighborhood alone, but because you can inflect the businesses that you invest in. And that's the kind of conviction you need to have in an environment that feels, you know, I think, certainly not underheated from a valuation standpoint. But I also think the point about AI and some of the other drivers that Bryan and Tony are making that will continue to drive improve, improve productivity, making sure you know who are the winners and who are the losers. I think that that should be a tailwind and I think that you know, fundamentally, there continues to be a you know, I think some reasons for optimism that the that the elite. The performance at the corporate side continues.

Haslinda Amin 10:01

So AI is a huge theme. Lots of people saying, bubble forming. Let's do a poll right here. Anyone who thinks that there is a bubble in the AI space? Hands? Already seeing a bubble. I only see one. Anyone else? We're all comfortable with how we're playing AI, that's two? No bubble. And yet, when you speak to people like Jack Selby, he says this is going to be the biggest bubble in history. Bryan, where are the blind spots? What are we not seeing, possibly?

Bryan Yeo 10:43

So we've been searching hard with regards to where the cracks might be. So when we look at the global AI value chain, I would just point out that there's a little bit of a hype bubble, or there's a bit of a hype bubble going on in the early stage venture space. So any company startup with that AI label will be valued right up there at huge multiples of whatever the small revenues are. That might be fair for some companies, and probably not for others. So the role for active investors, managers like us, is really to figure out where real value is going to be created that could disrupt what might be the incumbents today, where there is real value being created from the products or services rendered by these AI natives versus others, where it's a label and it's not a strong mode that they're building. So that's one space that I would be more cautious of at this point, not that we're not investing, but we're making sure we're digging really deep to figure out who the real winners might be eventually. And like I mentioned earlier, I think there is given what's if you take into account what's going on in the global macroeconomic space, we're going to see more rate cuts coming by the Fed. The One Big Beautiful Bill is effectively a fiscal stimulus with effect from first half 2026. So those are kind of tailwinds that could take valuations even higher from where we are today, and hence, if the technology doesn't catch up and doesn't deliver as per the high expectations that the market's pricing in, then we were in for a bubble.

Haslinda Amin 12:34

Sandra?

Sandra Cheng 12:35

Yeah, this is a very topical issue that actually our firm has been spending a lot of research trying to understand, is there a bubble? Is that a left tail risk that could potentially, you know, catch us by surprise? And I think, based on our research, when we look at kind of the growth of AI and the capex that's being put into the hyperscalers and that whole drive for AI innovation, we are still somewhat comfortable, because when we look at, kind of the growth of these AI companies, or just look at the Mag Sevens, they have gone up tremendously. Nvidia, now the market cap is bigger than the GDP of the UK. So how do you kind of think about, you know, where are the drivers coming from? But I think AI, obviously is integrating in every part of our lives, whether it's Medtech, naturetech, insurtech, FinTech, and so that ability to drive that productivity is there, but it's how do we scale that? And similar to what Bryan says, really looking for, where are the areas? There are definitely areas that could be risky, but we're focusing on that whole value chain that can benefit from this whole AI innovation. So some of the areas that we do believe, for instance, even a lot of questions about, is US equity still something that we're constructive on? Where are the areas that we expect to see a growth? We do expect a broadening of the equity market and broadening of the AI thematics. So it's going into, you know, electrical equipment, it could be software, it could be tech support. So it's much broader than just looking at purely just those AI companies, but really broadening out that whole supply chain.

Haslinda Amin 14:15

And Tony, you say, it's actually hard to see, you know, or to say definitively, there is a bubble. Why?

Tony Minella 14:23

I mean, I think there can both be a bubble and a hell and a lot of opportunity out there at the same time. I mean, AI raising capital at a \$500 billion valuation as a private company. Who knows how that ends up turning out, but I use AI every single day, and, it's relatively cheap versus the value that it adds to my life. And so I see, you know, a lot of opportunity with deployment of technology. And I think that that traditional, you know, relationship between I think we're in for a massive boom in productivity. And how that ripples through the world, the economy, what it means for inequality, how it benefits capital relative to labor, are all like really tough questions that we're going to have to wrestle with here over the course of the next decade.

Todd Sisitsky 15:17

I think you have to start in the AI conversation by acknowledging we don't really know yet. I mean, to me, it's, it's, it changes every few months in terms of the outlook and the limits. And I think there are good arguments on both sides in terms of the question of whether there's, there's a bubble. I mean, you have, on the one hand, companies that are scaling to \$100 million revenue, you know, as opposed to measured in years or decades, you know, in months. On the other hand, in the early venture world, you know, we've seen companies that are being valued at between \$400 million and \$1.2 billion per employee. I mean, it's a it's sort of a breathtaking moment. And so I think the key is to we have a very large team. We are in San Francisco. We've been focused on technology since our founding, and AI has been a focus of ours. Our first AI investment was probably C3.ai a decade ago. But we have that team, and we try to marry that with our sector teams, because the key isn't just AI in a vacuum, it's AI as it flows through the traditional sectors, in the areas where you have expertise, the neighborhoods that you know really well, and you have to be very careful, thoughtful, engaged, to try to figure out what the impact will be in each and what the carry through effect will be on the winners and losers in each and that's a that's a really important exercise. We don't have a single investment committee conversation or performance review committee conversation talking about our existing portfolio, where AI and the opportunity and the risk is not, you know, in the on the first page, usually in the first bullet.

Haslinda Amin 16:49

So we agree that there's still value in AI and the innovation that comes with it, that the question is really how you play it best, right? People talk about how perhaps Mag Seven is now passé. They talk about the SEB Four, Elite Six—I get confused. But the players for the future the way to make money in AI. It's different now. Where are the best bets? Are we still looking at the US or China could be a better alternative, because they are good AI players there too. I know that GIC is a big investor in China. How are you looking at the tech space in China?

Bryan Yeo 17:29

Well, as a global, diversified, long term investor, we've maintained our investments in China. We've been there for more than 20 years now, and China is going through a major transition in its kind of economic growth, one that was previously led by property investments, development, local government, infrastructure led kind of growth to a new model. And this transition will take quite a number of years, and we're just in the midst of that to a new one where it's going to be driven by advanced manufacturing. It's going to be driven by innovation that touches on the AI theme you talk about, it's going to be driven by consumption. And whilst they're executing this transition, there are major deleveraging forces underway as well, particularly in the real estate sector. So these are major kind of macroeconomic forces that are playing out, the transitions underway. So what we do is we we look bottom up and figure out in a granular way where value is being created, where growth is going to be sustainable. And what we found is actually in some of the leading companies in a few key sectors. So in the health care space, we were, you know, Cornerstone anchor investor in one of the recent IPOs and that's done well in the mining sector, was one that just recently listed on [inaudible] as well. That's done well. So we are seeing bottom up pockets of opportunities where valuations in general are quite low. Markets, you know, in recent years have derated that space. But whether it's AI value creation, innovation, whether it's the leading companies in the consumer healthcare industrial space, there are a number of bottom up opportunities that avail themselves.

Haslinda Amin 19:27

Todd?

Todd Sisitsky 19:30

As relates specifically to China?

Haslinda Amin 19:32

China, yeah, you know, because it does seem like this is a bag in a big way.

Todd Sisitsky 19:36

As a global firm, I think we are we've been in Asia I think we're one of the very first western based firms to be in Asia. In fact, I think it was within a year of our first investment in the US that we made our first investment Asia. And I think it was in China. It's a very important region for us. China is one of the largest economies in the world. It's important. We have a team there. It's been a little harder recently, as everyone knows, because the rules of engagement haven't been clear. I think there are some signs that that that may be ameliorating. We've been busiest in Southeast Asia, in India, where we've had 15 IPOs in the last three years, in Australia, New Zealand and increasingly, Korea and Japan. So China, we've maintained a presence there. I think over any longer period of time, it's going to be an important economy. It's going to be important place to invest. But there, there are still some growing pains, and I think the clarity that you need to really lean in, I think is still developing.

Haslinda Amin 20:41

But what are the potential opportunities in China? What's looking good? Potential opportunities?

Todd Sisitsky 20:48

Opportunities? Well, I think, you know, again, we're less about the, I mean, some of the themes that Bryan was mentioning, you know, I think we tend to think about our themes on a global basis. So we're on a global basis. We spend a lot of time in technology. We spend a lot of time in health care. We spend a lot of time in areas that we think of as driven by secular growth, and where you really can benefit by having a global practice and a lot of resources and understanding the nuances. So historically, we've had investments in those areas, in China, as we have, you know, more broadly, more broadly in Asia and across the globe. But, again, I think there's probably experts on this page who can give you a sharper answer on the current market, because I think it has been harder for Western investors as of late.

Tony Minella 21:31

Yeah, we haven't done anything in China. We're studying Japan. I think there's a lot of opportunity in Japan right now, I think.

Haslinda Amin 21:40

Such as?

Tony Minella 21:41

Yeah, I think valuations on the equity markets are very cheap. I think there's, you know, the government is, has a focus on driving shareholder, you know, value creation. There's a new 401K-like, you know, platform that they've instituted. And so there's, they're incentivizing saving and investment in the economy in a way that they haven't done the government hasn't done historically, which I think will provide for a solid backdrop for opportunities in Japan. And I think there's, you know, culturally for, you know, a brash American firm to come in and do LBOs and take companies private and use the banking system there that's extremely attractive right now. And even subordinate financing is attractive is not the right approach. And so we're trying to figure out how to partner and how to develop relationships with appropriate institutions that we can where we can deploy capital and have an edge and make a difference. But you know, I mean, in China, I just, you know, when you're defeated, right? And you don't, and you don't have an edge, and when you don't have an edge, it's not where we're going to be spending our time.

Haslinda Amin 22:57

Tony, you talked about how you're looking at markets-

Bryan Yeo 22:59

I would actually echo Tony's point, Japan indeed is quite a different place today from where it was during the two to three decades of deflation. What, what that two to three decades of deflation had done with zero rates was really inefficiency of capital allocation, inefficiency of inefficiency of balance sheet, and hence ROE was low. And as Tony had mentioned, the policymakers in recent years have been really catalyzing a major change there, with stronger corporate governance reforms, a big push for increase in balance sheet efficiency and all of that. And as a result of all of that, we are now seeing a long list of potential opportunities, situations where many of these listed companies are actively figuring out how they can increase ROE, figuring out how they can, you know, increase the balance sheet efficiencies, enhance the deal flow that translates from that, be it cross shareholdings unwind, be it spin off or carve outs of noncore subsidiaries, they're all underway. We're probably in the early stages of that and more to come. So there are a lot of potential value creation opportunities for investors in Japan.

Todd Sisitsky 24:20

I would also just add we've had a lot of success there. We've had a presence over decades in real estate in Japan, and it is a market where you want to feel like you have local connectivity. And our team's been there and working together again for many, many years, but they've been busy, and they found a lot of pretty compelling opportunities. And I think the overall opportunity set feels like it's expanding.

Haslinda Amin 24:47

Sandra?

Sandra Cheng 24:48

Yeah. So, for us, I think we are still very constructive more in the US, Europe, and emerging markets, China, I think they have navigated well in terms of, you know what's happening with the tariffs impact. They've done a lot in terms of consumption stimulus. They have done support measures to help, you know, the FX and the equity market. And obviously we have seen this animal spirits coming back now, right with what we're seeing in the performance. But while looking at that, we're still a little bit cautious, because obviously, structurally, growth is still quite low. Deflation is still there. And of course, I think the consumption, you know, still needs to kind of pick up because of, you know, the, I guess, the overhang of the property, you know, issues. And so we're a little bit more balanced in China at the moment, rather than being overly bullish.

Haslinda Amin 25:39

But what would you consider to be the key factors before, you know, dipping in in a bigger way?

Sandra Cheng 25:47

I think exactly what Bryan has mentioned, and I think Todd as well, is understanding that policies and really seeing that being kind of like cemented and more clarity in the direction of travel going forward.

Haslinda Amin 26:01

But is it also a case of the real estate sector, which is a key sector for China. Picking up in a substantial way, to give you the confidence that you know it is headed in the right direction in terms of growth, for instance.

Sandra Cheng 26:13

It's definitely one of the considerations for sure. But when we look at it, I guess we look at it holistically, like, how does that flow into the economy, consumption, etc.

Haslinda Amin 26:22

Is it a good time to do a rotation away from the US market to perhaps this part of the world? I mean, you know, we see valuations at, you know, heightened level in the US, still looking pretty cheap for most of Asia. How are we looking at in terms of how you're looking at your portfolio, right? Yeah, go ahead.

Todd Sisitsky 26:44

I was just gonna say I think there's a question as to whether US exceptionalism has really unwound.

Haslinda Amin 26:52

Has it?

Todd Sisitsky 26:53

I don't think so. I think the level of innovation, the fundamental strength of the the corporate world, in the US—it's just a very healthy ecosystem. I think what we've seen recently, you see it in everything from the US dollar to, you know, to the relative performance of the markets, is just a rebalancing which probably had been a little too focused on the US, on the basis of how strong the US economy done relative to all other economies coming out of COVID. So I think what you see now is a little bit more of a rebalancing, but I think it's still a very interesting market to engage in. I do think it creates a lot of opportunities for Asia and for Europe, which I think to us, is very interesting now, even though for you know, many years, folks were stepping back on overall fears that there wasn't enough growth. So I think there are opportunities in other in other regions, but I think it would be a mistake to not to not think that the US is still going to be a very deep and very interesting market for a whole range of alternative asset investors.

Haslinda Amin 27:56

Do you have to take our expectations for returns in the US markets?

Todd Sisitsky 27:59

Well, again, I think it depends on individual markets, which asset class you're talking about. But the short answer is, I think the effort, the opportunities for compelling returns in the US market did not feel I think you have to be more careful to our earlier conversation about overall multiples. But I think the opportunity is still, is still very much there, so we're still very constructive, in the neighborhoods we know well, in the companies that we feel like we can have an impact on, and, you know, and in the markets that we that we think are appropriately valued. It's not universal, but I think it's, I think there's still a lot of opportunity.

Tony Minella 28:37

I mean, we mentioned Nvidia earlier. I mean, Nvidia is, what a \$4 trillion market cap today? 10 years ago, it had a sub \$15 billion market cap. And so the, you know, the backdrop for opportunity and growth in the United States, I think, is unparalleled. You know, globally, hopefully we don't, you know, shoot ourselves in the foot here, with our with our government, and you know, we can, we can create a reasonable environment for companies to, you know, to thrive in terms of, you know, returns. I think our the way that, you know, we look at returns, at Eldridge, I mean, I think right now, a risk free return that we can achieve is about five and a half to 6 percent and that is through, you know, AAA CLO liabilities. And we have a couple of ETFs where, you know, we invest our our general account at our insurance company and in assets like that. And we also have ETFs that we can provide to retail that do that, you know, on the, on the higher end, you know, yielded the spectrum we're up to into the 20s. You know, through, you know creative structures and you know preferred instruments that you know have good downside protection and participate in the upside.

Haslinda Amin 29:51

Bryan?

Bryan Yeo 29:53

Before everyone thinks we're all for more characters, bullish views on AI, I thought. You'll be good to talk a bit about where we see certain potential cracks or weaknesses and risks that we're watching. So we know that we're in a world that's in transition, a changing world order, going from a unipolar world to a multi polar world, and priorities of many governments are changing; national defense, self resiliency, these are all high up on the agenda with quite a number of governments. And at the same time, having gone through the global financial crisis, the COVID pandemic, many DM and EM governments have had to take on more debt. So we're at a point today where we look at the world and we say there is a lot of debt in the world, the question is whether the world can grow out of this large stock of debt? So fiscal risk is one key area that we've been very much focused on. And we see flashes of this risk in recent times, and it's probably manifesting itself in where 30 year yields are in, you know, some of these countries, that's a reflection of market pricing of fiscal risk to some extent.

Haslinda Amin 31:09

Ten-year premium as well?

Bryan Yeo 31:11

Ten-year premium, yeah. So that's where we are quite laser-focused because the potential playbook there might be—well, in an in an ideal world, policymakers can do the right thing by cutting spending, raising revenues, growing out of the problem. That's the blue sky scenario. But in reality, with politics, it's always going to be difficult. How do you go to your electorate and start cutting spending and raising taxes? It's always going to be tough. So would the markets force the issue at some point with a sell off in yields? Call it 150-200 BPS higher from here, that will scare global markets. How are policymakers going to respond? Find we've seen these episodes in history before, and it's called financial repression, you know, depressing or capping yields, yield curve control, you name it. And what that then translates to could be a loss in confidence in the currency. And this can happen to any country. Right? Of course, we can filter, look through the balance sheet and figure out which are the more highly indebted ones, but that's one major risk we see that's on the horizon, and one that we're tracking very closely.

Haslinda Amin 32:29

And what's also unusual is that we're seeing stocks, bonds, gold, all doing so well, all at the same time. It is kind of like unsettling, Sandra.

Sandra Cheng 32:40

It is. And I think that, again, it's really important to have that holistic view, because there are so many interconnected factors that's driving that behavior, right? So gold, obviously, clients are very concerned, because inflation is probably going to stay higher for longer, and at the same time, people are not sure about what's happening with geopolitics, the impact of tariffs. How is that going to flow through into, you know, your valuations and equities are not exactly cheap. And then credit spreads are very, very tight. So there's all these confluence of factors that I think clients have to, you know, wrestle with at the same time. And so having that kind of broad ability to kind of look at the relative value and the liquidity premium between public and private allows you to kind of play through that cycle where you can see dislocations and opportunities.

Haslinda Amin 33:31

Where are the opportunities in the private market?

Todd Sisitsky 33:36

Well, I think the opportunities in private markets are in the areas that are really well positioned from a secular growth standpoint. I mean, that's where we've been focused. I do think we've probably had a slightly more cautious view of the valuation environment than the trading multiples might suggest, and it's led us to be really sharply focused on the businesses that we think will continue to perform well in this and the neighborhoods that will continue to perform well through whatever volatility is ahead. And again, as I said, that's led to an underwriting discipline that I think puts real pressure, not just on your confidence in where you're investing, but on your confidence on what you can do with the companies that you're investing in. I think that if you really step back, most of our careers have been in an environment where interest rates were declining and multiples were increasing, and certainly, and I think this is true, really across the board, but for levered equity, that meant that you had a wind at your back as a starting point. And I think the result of that is that there's probably a little less divergence, if you think about folks at the first versus the third quartile. I think that's changing. I think we're entering a world where you have to assume that you really have to work hard for your for your returns, and you have to drive, you have to drive strong performance, and not just count on positive atmospherics to support your results. And I think you're seeing that in things like fundraising, where certain firms are doing a lot better, certain asset managers are doing a lot better, because there's a sense of confidence and others, you know, may, may cease to exist over some period of time. And so I just think it's, it's a moment to be an investor. It's a moment to be someone who can, who can add real value to your investments.

Tony Minella 35:21

In private markets, we've invested in some music catalogs. So we own Bruce Springsteen's catalog. We own the copyright for the songs, and we own The Killers catalog. We bought them almost as an alternative credit investment. You know, back in 2021, 2022, they've actually—you look at them relative to real estate, and you don't need to, you know, do tenant improvements. You don't need to maintain a building. You have a catalog that you can rerecord, you can go out and you can do endorsements. And they've performed extremely well for us. I think we bought the Bruce catalog, and it was doing 7 or so million of cash flow, and it's up to 16, 17 million right now. And so those are the type of private market investments that we're focused on. We have a fund that is dedicated

to sports and entertainment, and we'll make investments like that. Private credit gets talked about quite a bit. I think—and people point to a bubble in private credit, but I don't think it really exists. I think you've in, private credit in the United States anyway, you've removed an intermediary that is an investment bank. The investment bank is there to make fees and to distribute broadly syndicated loans to the market, and not really do any diligence on distributing those broadly syndicated loans to the market, and then those get securitized and put out in a inside of CLO structures or inside of ETFs. Private credit, at least, you have a you have a bilateral conversation that's going on between a principal that owns a business and between the lender that's trying to deploy capital. And so, you know, I think the fundamental protections that are afforded in a credit document exists in the private credit world, and they, you know, really don't in the broadly syndicated world which is going to create, creates a fertile playing ground for firms that know what they're doing to get in and encumber assets inside of a company's capital structure that, you know, protect us on the downside and allow you to get generate good income.

Haslinda Amin 37:40

Bryan, private credit?

Bryan Yeo 37:41

Yeah.

Haslinda Amin 37:41

We had Goldman saying this morning that fundraising is solid. Is there a reason to be concerned that it's solid?

Bryan Yeo 37:49

So we take a step back and think about where demand supply imbalances are. That creates risk, that creates opportunities. So when we think about that in the private markets world, we've seen over decades now severe under investments in global infrastructure. So that's where there is a big demand supply imbalance we're seeing. That's where we are actively hunting. And we're talking about, you know, power transmission. We're talking about the energy grid, either new infrastructure needs to be built or existing ones need to be upgraded. So these are core infrastructure opportunities that we're seeing on a global scale. They're availing themselves, and that's where a portfolio like ours also gets inflation protection, if we structure it well into the deal. So that's one key area of opportunity I would highlight in infrastructure. With regards to private credit, it's quite a heterogeneous space, so we can't just, you know, brush it one way or another. I would say we have been invested in that space for 10 years now, and with a bit of a luck, we haven't really seen much of a default cycle, albeit a very short-lived one, during the pandemic, early stage of that. And the truth is, we have not seen a full blown default cycle since the global financial crisis in '09 so it's been 16 years.

Haslinda Amin 39:21

Is it you?

Bryan Yeo 39:23

No the world. So private credit ecosystem has grown quite significantly. It's great for companies. It's an alternative source of financing. It's been great for investors till now, till the next default cycle comes round, and that will be challenging. Where we are seeing excessive demand relative to quality supply, I would say, would be in the US direct lending space. It's a space that's a lot more mature. It has grown over the years. To be fair, we have been active investors, and we've benefited from that, but we're at a point now where when we see some of the structures, we get a little worried. Eight year maturity, 100 percent full payment in kind. And then you go, will I get my money back after eight years or 10 years? There's no cash coupon in it? So if it's a high-quality company, that's fine, but if it's a lesser credit, because there's just so much money coming to that space, that's where we get worried. So we're raising our bar in certain parts of the private credit markets.

Sandra Cheng 40:27

Yeah, I think that resonates very well, especially I think when we think about infrastructure and this whole AI boom, right? The hunger for energy and low-cost energy and this demand for energy security becomes crucial, right? So how do you find other ways to deliver that low-cost energy is through infrastructure, in rather in your renewables or your battery storage? And so we're seeing a whole spectrum of things within the infrastructure space that we're seeing a lot of interest because that actually drives and plays on the theme of AI innovation, as well as the long term focus on building that climate impact. And so being able to kind of do both and have inflation protection and your stable recurring income is actually quite interesting at the moment.

Todd Sisitsky 41:18

I was just going to react to the conversation about private credit. We're very constructive on private credit. It's probably the fastest growing business within within TPG. It's like everything else, you have to pick your spots. And I think direct lending is a good example. We're very active direct lenders, and in growing that business quickly, but we've been in the lower middle market, where 100 percent of our deals have covenants. We're at the table. It is much more like this unintermediated conversation with with the lender. You have a seat at the table. You don't have to wonder what's gonna happen in eight years, because you kind of, you know what's happening every quarter.

Tony Minella 41:52

You just have to really, you know, do your diligence and make sure that you understand the business, yes, that you're investing in. And in today's environment, there's liquidity, and so to the extent that you don't like a business, or you're not happy with a with a particular credit, go take that liquidity.

Todd Sisitsky 42:07

Pain, you mean.

Todd Sisitsky 42:07

Exactly.

Tony Minella 42:07

Go get someone else to refinance you, because this private credit is going to trade and in a default cycle that Bryan talks about, you know, I think that's going to be a lot of fun, right? Because you're going to, we're going to—

Tony Minella 42:08

Just preserve your liquidity for that time.

Todd Sisitsky 42:12

I'm not sure I would have said fun, but yeah, it'll be interesting.

Tony Minella 42:20

It'll be fun.

Haslinda Amin 42:22

We're on the cusp of retail investors getting into the private space. Is that a game changer? How will it shape the space now?

Bryan Yeo 42:37

Yeah, so we're seeing that trend pick up, meaning we do think private markets, over time, will get increasingly commoditized and democratized, and that's not necessarily a bad thing for retail investors. Retail investors who had globally would have more options to invest and deploy capital and grow and preserve wealth. The question is the pace in which it happens. If there is going to be a flood of money coming in in the next 12-18 months, that could be a problem, because that would then mean, you know, deployment of large amounts of inflows into what's a limited set of good opportunities, which could then lead to a lowering of underwriting standards, it could lead to lower returns, and it could lead to bigger issues down the road. So there is a positive side to it, but for institutional investors like us, it could also mean greater competition for good deals.

Todd Sisitsky 43:41

I think if you look at sort of the macro, the institutions that are investing in alternatives, whether it's pension funds or it's sovereign wealth funds, there may be some increased penetration, some increased share that goes but it's some folks are at 20 percent some are 25. The whole private high net worth channels at maybe two or 3 percent which I think, from an access standpoint, does really underscore what Bryan's saying, that there's a positive to creating access to a broader set of alternative investments. And so I do think this is an important trend, and, you know, it's an inevitable trend at the same time, I think a lot of what, particularly we do and others do, is somewhat longer dated and illiquid, and as a result, the relationship with institutions, to me, is still going to be central to how capital is formed for many of these asset classes. But I think, like, like a lot of things, it'll just continue to evolve. There'll be, there'll be a continued increase in access and in structures that allow the retail investor, the high net worth investor, to participate in markets that have previously been, you know, unable, they've been unable to access. And I think that'll fundamentally be a healthy thing. I just don't think it'll fundamentally displace or change too dramatically, the core relationships. I mean, you know, Bryan's organization in particular is sort of one of our most important partners, if not our most important partner, across a broad range of products, and, and I don't, I don't see those dynamics changing.

Haslinda Amin 45:17

As we wrap up the conversation I just want to go down the line. In the next 12-24 months, what's the asset class, just one asset class you're betting on, and what's the one region you would want to be betting on? 12-24 months. Down the line. Ready? Go!

Bryan Yeo 45:36

Asset class, like I mentioned earlier, infrastructure. We see lots of tailwinds there. You might not get your immediate, quick gains, but over the long-term, it's about compounding. That's what long term investing is all about.

Haslinda Amin 45:48

Geographically?

Bryan Yeo 45:50

We're global investors.

Haslinda Amin 45:51

No favorites. Come on, Bryan, you kind of play—

Bryan Yeo 45:56

Well—given the diversified nature of our book, it's almost impossible to pick one, if you see what I mean. So when we think about global asset allocation, I know it's a longer answer than what you're expecting. From an asset allocation perspective, we take multiple lens. So asset class is one. Country, regions, and other sectors and other factors and other thematics and other—so we put that all together and really think hard about where capital should be deployed to give us the resilient portfolio construction on one hand, but the good long term returns on the other.

Haslinda Amin 46:33

So he's not answering the second part of the question. It's okay. We have to move on. Todd?

Todd Sisitsky 46:38

I like Bryan's answer on—

Todd Sisitsky 46:40

You can't share the same answer, Todd!

Todd Sisitsky 46:42

No, I think we're seeing opportunities in a localized way in a lot of our different business units. We are seeing energy transition, which I think is related to the infrastructure. By the way, 93 percent of the energy that would come online in the US and next year is clean energy. So it is related to climate investing I think that's a big opportunity. We're seeing a lot of opportunity on the credit side, beyond direct lending, which is important, there's sort of our non-EBITDA structured finance, which has been a very fast growing area for us, and has a lot of appetite, particularly among insurance companies. So there's a lot of just opportunity there to continue to grow credit solutions, which is a more structured deal. I think, more broadly, the other thing that's happened in private capital, which is a little bit of an orthogonal answer to your question, is that we are doing a lot more things with corporates. We're not just the place that corporates go to sell their businesses. We're seeing 60-70 percent of our private equity deals in the current fund are structured relationships with corporates. So if I were to talk about an opportunity that extends across credit and across equity, it would be the opportunity to create win-wins where you're adding something other than just the capital. You're providing, some actual value add with corporate partners, in some cases, by the way, also with non corporate partners, not for profit, hospitals and universities. We've had, we've had these structured relationships. That's a very big trend we've seen picking up over the last few years. And I think speaks to a much more central role for alternative asset investors in the corporate world, relative to what it was 10 or 15 years ago.

Tony Minella 48:15

Yeah, I think those bespoke, you know, off balance sheet credit solutions for investment grade companies are, you know, areas that, as Todd was touching on, there are that insurance companies and private capital crave, where you can get a bit of a yield premium relative to investment grade corporates. But you're taking some risk that you know, that structure, you know doesn't, you know—the investment grade corporate that's behind it doesn't live up to its obligations at the end of the day, which I think is relatively remote in, you know, most of the situations that we look at. But I mentioned Japan earlier, you know, I think there's an opportunity there. I think, you know—

Haslinda Amin 49:01

But you still like the US?

Tony Minella 49:03

I still like the US. I mean, the only stock I own is Tesla. I think if you go back and you look at returns, and I think CalPERS post their private equity returns dating back to the early 90s. And what do you think that they've achieved on their, you know, on private equity returns and alternatives since the early 90s, on an annual basis? It's like 10 and a half percent, you know. So for all the talk of alternatives, I think, you know—I mean the S&P and the Russell have outperformed, you know, what CalPERS has been able to do on a private equity basis. And private equity, when you give your capital over, you get it back 10 years later, 15 years later. So I think secondaries in private equity is interesting. I think working with private equity firms to be able to come up with creative solutions to acquire businesses that they know. So, I mean, you Todd, you know better than me, but I think the hardest thing to do in private equity is actually understand what you're buying in the race that is an auction process. And so, you know, with LPS putting pressure on private equity firms to get money back, I think that I would rather partner with

the private equity firm and say, okay, rather than sell that business that you really know well right now, that's done well for you. Let's give you capital so that your LPS can get capital back and you can raise another fund.

Sandra Cheng 50:29

Yeah, I think infrastructure is definitely one place that we like a lot, and ABL asset based lending is the other one, where we see if investors want a stable income, a little bit shorter duration. I think that's really interesting as well. And then I guess on the real estate side, there are pockets that we're seeing quite strong thematics. So whether that be in the living space, given the whole dynamics of the demographics, but also even looking at kind of logistics and multifamily in across Europe as well. I think that trend is changing, and of course, the PBSA side as well.

Haslinda Amin 51:05

That took a little longer than I expected, but we got there in the end. Sandra, Tony, Todd, Bryan, thank you so much for your time today. Thank you for joining us.

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