

GLOBAL OVERVIEW: CAPITAL IN A CHANGING WORLD

Chery Kang 00:08

Good morning, everyone. Thanks for having me and for this panel specifically. I'm very excited because the world that we live in—I mean, I know we've said that like hundreds times this year—it's confusing, it's volatile. Where is the money going? The hot money, real money. So I'm actually here to learn from the distinguished panel that I've got on the stage this morning. So, very exciting, and really the main question is: What is the noise? What is the signal? How do you act on those signals? So let's kick off with Hoi, just because you're sitting furthest away from me. I wanna sort of pick your brain about how you're thinking about this ongoing Iran war, and it's not just that. We're just getting a lot of policy shocks. I feel like the world is changing. How is that changing what you do every day?

Hoi Tung 01:08

Well, it's a very difficult question. Obviously, you know, the Iran—the war is certainly has really created a lot of issues and volatility in the market across the—all the asset classes, I suppose. And the key question for me to consider is—because I'm responsible for investment outside China, dollar investment, so over the—we're building a portfolio of roughly \$60 billion dollars outside China, mainly into the US. So the key question for me to consider is whether—how much and whether you continue to deploy capital into the US given, you know, US has been rather—becoming less reliable, not really rule-based and everything, and the market's become so volatile. So that's the key question for us to consider, and presumably that's the question for a lot of people to consider. But given—because we're relatively—in terms of our entire portfolio, you know, we're a trillion-dollar asset company, and so the amount we deploy in US is still relatively small, but consider some of—lots of, sort of sovereign and pensions, the—I think—you know, I was told that 80, 70 percent of the portfolio is geared towards the US, and that for them, probably, the problem is even more pertinent and urgent to think about whether they're going to diversify away from US or not. And obviously, you know, the—with the hike of, you know, the oil price, the potential, you know, to trigger re—the inflation in the US, they also consider the rates probably is going even higher rather than going down. So all these issues, I think, will probably let people or let—at least from our perspective—think about whether we will continue to, well—put still—we have roughly—it's about 90 percent of portfolio used to go to US, and now we think about whether we should trim down a bit. Even though the overall portfolio is still very small anyway. So that's for us to consider—you know, the US exposure, number one. And secondly—but that's probably not my job to do it, but certainly I know—if you think about relocating your asset away from the US and where you're going to deploy it, I think one of the themes we think about, and personally I think we probably, we—all the investors need to think about is to—re-engaging.

But China used to be uninvestable since COVID to, I think, 2024 last year. Now, probably I think a serious investor really think—should think about China and China—because of the stability, number one, and secondly also I do see the animal spirit is coming back a bit, and the economy has—probably has already bottomed out and I think probably—I think probably it's a good time for, you know, investors to rethink about—really think about their investment into China. So I'll probably just pause here.

Chery Kang 04:18

I love that. That's actually a great opening—opener, and your exposure and your thoughts on China—we'll definitely come back on that theme, but I want to go to Kevin now and, you know, just wonder how you're thinking about what's going on in the Middle East, and Partners Group has been pushing for the GCC region. Middle East has been really a great source of global capital as well. That can go offline for some time?

Kevin Lu 04:47

Thank you, Chery, for that question. I think everybody in the room probably wakes up today or the last few weeks thinking about Middle East, right? So I think we are no different. A couple of things for Partners Group. One is obviously in the short term, we focus to assess our portfolio, right, how much of impact that this crisis happening is affecting us. I think fortunately here, I think we only have about 10 percent of our global control portfolio that have some exposure one way or the other, right? So we're not too worried for the short term. The bigger question is what's happening in Middle East. How much of a medium and long-term impact on global economy, right? So we are a global firm. We manage 185 billion. We have 24 offices. We manage funds for—what, 1,000 institutional LPs, right? So that longer term impact on energy price, on geopolitical fragmentation, military conflicts potentially. That's something we have to think a lot about, right? One interesting is that—I mean, listening to Hoi—that, you know, every investor is different, right? So we actually have a very balanced portfolio from the US perspective. We have about 40, 45 percent in the US, 40, 45 percent Europe, and the rest in Asia and other regions, right? So we actually do not have that issue, right? But in terms of the over-concentration and—but we—still, it's—the impact of those things on the global sort of portfolio is important. My final point is that for us, the other thing we pay a lot attention is—we sort of watch where the smart money goes, right? So for example, a lot of our large institutional investors, we talk to them every day. You know, we sort of exchange views on things, right? We don't always agree on things, like this is crisis, but you pick up a lot of data points about where investors are thinking. Maybe they have US exposure issue, maybe have a bit of East issue. That's something we spend time constantly to think about how we can serve our investors.

Chery Kang 06:53

And hopefully you can share some of that throughout the panel. Don't say final thoughts, we're just getting started here. Yeah, Chris, you're probably listening to what Hoi was saying at the top and going, "Wait a minute. What about Indonesia? Don't talk about China only." But you know, today—I mean, not today, but—yes, like in 2026 we're all learning about how many of these Asian economies are so vulnerable to oil imports and the disruptions that are playing out here. And you spent some time talking about that in the pre-discussion as well. How are you thinking about where we are in markets?

Christopher Ganis 07:33

Yeah, I mean, I think, Chery—you started your remarks on trying to differentiate the noise and the signal, right? But the reality is the noise will build into the signal, and I think we are still at the very early stage on building out that noise. I think that first step is not as of understanding the actual physical infrastructure changes. It's not something that I'll be able to comment on, right? Just sitting a couple thousand miles away. And being—and trying to study on the history on most recent events in the last 40 years is also a slippery slope, right? Because every notes out there will say, "This one is different," right? So I think for us, the—when we look at the—how we think about our mandate, which is twofold: one is the economic return, and the second mandate is actually development for Indonesia, right? So I think when we layer those on, and then we try to layer on the second phase on understanding the situation is we—trying to understand how each of the sovereign responses to the situation, and how those responses will intertwine with each other, and understanding there are short-term levers, such as the strategic oil reserve, but maybe in the medium-term reserve it'll get negated as countries starting to become more aggressive in building out that reserve. And how do we overlay that, right? Because I think it will all come down—for us, the way we think about it is we are operating in a different world, right? That—the acceleration of a multipolar world is becoming more prevalent. A lot of people are more onshoring—or friendshoring, and I think the mantra of getting as close as possible to the lowest cost infrastructure is now becoming superseded by getting as close as possible to the customer base, as well as getting as close as possible to the raw material. And this plays out well for economies like Indonesia, but what we have to acknowledge is it will play even better if we start looking at it as a bloc, right? And I think that's also transpired into our investment, that we try to look at it more from a regional bloc, a natural bloc, like the ASEAN. Right? Because you do see relatively time-tested, collaboration that is natural, supported by the different advantages each country brings, as well as the interconnected cultural, right? So I think that collaboration spirit is something that we continue to push front by acknowledging that some of these trends that we've held very dearly might be changing. And structural changes is not always bad, it's just how do we react to it is what's more important for us.

Chery Kang 10:51

Yeah, and Aaron, we spent some time this morning, on CNBC talking about that very market psyche, that sort of trying to come away from what it's been comfortable with and what it's been betting on for a long time, and you think there is a disconnect perhaps in market perceptions and sort of this reality of the potentially real impact of this war, and high energy prices as well. Do you think the market is sort of waking up to that reality and trying to close that disconnect this morning?

Aaron Costello 11:30

Yeah, I mean, I think if you take a step back, markets have been—until maybe recently—extremely resilient. You know, at one point, you know, global equity is down 5 percent despite the price of oil doubling and there's a hot, hot war going on. And so I think that's because they've been—become conditioned to say, "Oh, you know, mixed messages from the US administration. This is going be short term. It's escalating or not escalating." And then I think on Friday, you know, markets kind of broke to new lows and this morning selling off—because I think the reality is it is going to escalate before it de-escalates. Technically, we have a 24-hour window, so maybe. But the signals coming out from Iran and I think just the pattern of the past few weeks is that it's probably going to escalate. And so I think markets are reacting to that now. The longer this goes on, the bigger the risk to the global economy. And so, you know, right now, you know, companies and countries have reserves and stockpiles, but those will eventually be depleted unless this wraps up in about a week or so. Or maybe we'll call it two to three weeks or something. So markets are starting to price that in. They need to price that in. And I'll also just point out that markets ran up a lot last year, and so I actually think the first stage of what you've seen in markets is actually a reversal of those that had outperformed. So Asia had run up a lot, and yes, Asia has sold off more because of energy independence, but also it had run up a lot. Gold has not protected as you would have thought because gold became a momentum trade last year and ran up a lot. And so I think you have some of these reversals. The dollar has jumped, and that's, you know, partly because the US is a net energy exporter now. And so yes, vis-à-vis energy importing

countries, the dollar should go up. And yes, there's always the kind of risk-off flight to safety for the dollar. But again, I think bigger picture, when we take a step back, when the dust settles or when the price of oil starts to come back down—whenever that may be, I don't know when—is some of the themes you've heard from the panelists that their countries now need to focus on energy security. They need to further build out their renewables, build out their energy grids, maybe more nuclear power, more focus on defense. The US has become, if not unreliable, certainly more erratic. And so countries need to fend for their own. So I think there actually—when this all kind of starts to calm down—there could be this big global CapEx cycle that other countries need to do and increase fiscal spending. And so right now, again, US is kind of benefiting as a safe haven or kind of just less energy reliant, but that may switch going forward. And again, I think non-US markets may benefit from that whenever this crisis is over, whenever that may be. And I haven't checked my phone in the last five minutes, so I don't know. It could already be over. I don't know.

Chery Kang 14:10

Yeah, somebody tell us—update us on oil prices if there is a big decline or a big spike, right? Hoi, how do you react to what Aaron just said? He expects this major global CapEx cycle coming, but at the same time, not so much—some of that happening in the US. Are you—when you are thinking about your big US exposure, thinking about the rest of the world, where do you think some of your capital will be going to? I know that you had mentioned China. You can elaborate on your China thoughts as well.

Hoi Tung 14:46

All right. I think, you know—but I don't invest into China because my colleagues in China, they do lots of investments obviously into China. But I think, you know, given, you know, China is so close to us anyway, to me and obviously—so I think, you know, the two things I think, you know—probably I'm stating the obvious, to be honest. And the two—there's a—obviously, economy is not doing great, but it's still stabilized at around, you know, 4.5, 5 percent. And, you know, consumption—domestic consumption is still an issue and is very lackluster growth. And the only bright spots is obviously exports. And secondly, I think, you know, within that—and the government is very promoting, you know, the shifting from the low-end manufacturing into the high-end. There was a lot of R&D input, high-end manufacturing. That part has been working, I think, over the years. And obviously, you know, one of the bright thing, I think huge potential is obviously, you know, to finance the Chinese manufacturers going global. So that's one of the things, the high-end manufacturing. Obviously, you see China has been, you know—accounts for one-third of the global manufacturing capacity over the past—more than the past decade. And, you know, the electric batteries, electric vehicles, and even the renewable equipments and all many so dominant—the global competition and obviously anti—I think these are probably, you know, continue to do—because the China enjoys quite a bit of, you know the scale factor. It's more efficient. Chinese companies are more efficient. And thirdly, the—you know, the supply chain is very much embedded in China. You just can't take that away. So then thirdly, there's a bonus of engineers, about 10 million trained engineers every year from Chinese universities. That adds quite a bit of a bonus—benefits to overall sort of the ecosystem of manufacturing. I think that been working quite well. I think that's probably—that also goes to—because the very, you know—the topic of AI and obviously the Chinese AI, actually is catching up with the US, particularly in the language models. I was told, you know, the large language model, China is probably six—three to six months behind the US. So I think they're catching up very quickly. And it's free. It's open sourced, right? You do it for free. You give—everybody get it for free. So that's benefiting all the users instead of you paying 200, 400 per month to Anthropic or AI—OpenAI, right? So I think that's add quite a bit of—I think in these areas, certainly you can do a pick of very best companies in China. I think that's one. And secondly, the point relates to bio. It was also very obvious is the bio, biopharmacy, biopharm, biotechnology, the innovative drugs research. China now accounts for 50 percent of global pipeline. So if you account for 50 percent pipeline—so the chance for China to discover new blockbuster drugs is—was also at probably around 50 percent, right? So I think that's also has huge potential. And the China, the investment thesis is to invest in the very early—in the clinical trial period because where China can add a lot of value. The commercialization obviously has to be in the US, but the drug discovery and the preclinical trial, China

probably—I was told Chinese companies is definitely five, four times more efficient in terms of the trial time as well as the cost involved in that. So I think it becomes all very competitive. I think if you invest in China, obviously, I think these are two areas, I think, you know, has a structural benefit, given the government support or given the embedded competitive advantage as well as, you know, the human resources and talent pool that you can draw upon. I think these are all very positive to me, and certainly I think people should think about these things, how to get involved in these—exposed in these two sectors. But there are many other—you know, China's so big, and obviously, you know, there's obviously—there is a lot of idiosyncratic, you know, investment opportunities, you know, available. But these are two I think are structurally definitely, very, very positive trends of people shouldn't miss to invest, I suppose.

Chery Kang 19:38

Anybody who wants to react to what Hoi just said or disagree?

Aaron Costello 19:43

I would just add again, China—back to this renewables theme, I mean, actually the currency has held up well. The markets, depending on the day, have held up relatively well because they've made these investments, and they actually have reduced their reliance on oil. You know, the—a lot of electric cars. So again, they've kind of paved the roadmap there. Invest in renewables—yes, it's good for the environment, but it's a national security issue. And so I think that's kind of—people kind of take that and take that kind of roadmap and take it forward. I would also say that, yeah, like last year on this stage, I think we were talking about how unloved China was and the skepticism that foreign investors have to it.

Chery Kang 20:17

Is that changing?

Aaron Costello 20:18

It's—so I would say from my own experience, I've had more conversations with clients about whether we should invest in China, should we come visit China, arranging trips to get on the ground. There's been a thaw, particularly from Europeans. The Americans are slowly warming up. I think a lot of it just has to do with, you know, it's—to me, it's very clear going back to October, the Trump administration wants to strike a deal with China. I think he's actually now even more desperate to strike a deal with China. He needs some sort of good news. And so, yes, they've delayed the meeting. I don't think that means the meeting is off. I think they were going to try to deal with this—the Iran situation, and then I think he—this notion of going to China, showing a deal, showing a thaw, I think that's still there. And so I think the geopolitical risk premium investing in China actually has shrunk. And I think, you know, if China can deliver—ultimately can China deliver the earnings growth and the returns, then the investors will come back.

Chery Kang 21:13

And I think it's interesting how more people want to set up visits to China. Do you think it comes from maybe the realization that they don't really understand China sitting all the way in the US or all the way in Europe? Do you think that's been happening for too long?

Aaron Costello 21:29

Yeah, I mean, I think COVID derailed everything. So pre-COVID, you know, our clients and colleagues traveling to China—we have an office in Beijing—like traveling all the time, lots of investment. COVID hits, you couldn't travel for practical reasons. And then, yes, the Chinese economy slowed, Chinese investments underperformed, the geopolitical pushback got too much. And so people started visiting India and Southeast Asia and Japan to some extent. And I think now that the Chinese asset classes have come back, the kind of proof in the pudding—and then, yes, there's been this thaw, at least in US-China relations. And just the reality that maybe because they haven't been in four or five years, they actually don't know what's going on. And yes, the AI themes and the biotech themes where China is leading, I mean, that's got people's attention. And so I think that you're seeing the thawing of that, and I think that'll continue.

Chery Kang 22:16

And Chris, I will get to the Indonesia case, but I want to just, pick your brain, Kevin, first. In terms of in the spirit of looking for new opportunities in areas that didn't run so much in valuations, how are you thinking about things, at Partners Group?

Kevin Lu 22:35

Yeah. Maybe I will start by adding on the China topics and we will not very naturally come to your question as well, right? If you look at China, a couple of very quick points. One is that whether an investor should invest in China or not, to some extent, depending on your exposure, right? Depending on your asset class or your exposure, if you're overexposed, you want to think carefully. If you are not, you should look at China carefully. There's clearly a pivot the last 12, 15 months from institutional investor through Hong Kong, for example, right? Picking up that interest which sort of was low after COVID. But there are two other points on China I have very high conviction about, which I will use less conditional statement. One is the Chinese capital, the Greater China capital, their level of interest in going to Europe, going to ASEAN, is very, very clear. That we pick up a lot of conversation, and I think that's historic level in terms of the—both the sovereign and private capital wanting to be more connected to markets in Europe, markets in the rest of Asia. And secondly, and related to that, in terms of the—between our portfolio companies, right? Chinese portfolio companies, other Asian portfolio company, European—even US portfolio companies, how that linkages—I think Hoi mentioned about as well, right? The value creation between those companies, that is very clear, right? Regardless of whether necessarily you invest into China today, right? In terms of opportunities, I would add—maybe again, I will respond to something you talk about. You and Chris both mentioned about signals and noises, right? So I would expand that slightly. I think the world has three buckets in my mind. The first bucket are big shifts that are structural. There are many of them that are today. I don't even name them, right? The role of US dollar, the role of US as a security provider. The second category are the changes that are short-time, that come and go, right? The third bucket—to me it's the most interesting—is things that are very predictable, almost very boring, right? And again, if we go back to China—and I think Kevin Sneader told us earlier that Goldman has raised their GDP growth for China, big news, you know, from 4.8 to 4.7, okay? That's very predictable. Okay, so China, you know—if you look at China, every year they run their two sessions in March, make those policy discussions and the central government announcement in January, the first one is always about agriculture, right? So these are very, very predictable things that we investors could rely on. So for us in—investing in the private markets, there are a number of pockets that I

think it's very predictably relevant for sort of investors. Infrastructure, for example, right? Regardless of how the world changes, many countries need more infrastructure investment that create opportunity, AI or not, right? It very true. And another very technical point is, for example, I mean, many of you are private market investors. If you look at, for example, the secondary investments in private markets, right? It's almost a numerical calculation how big that market is. It's depending on five, eight, ten years ago, how much fundraising, right? So last year, for example, in this very boring topic, that the whole world transacted 286 billion of private equity secondary investments. Ten years ago, that's about between 30 and 40 billion, right? You could predict that, right? It's very—so these are areas, in spite of all the big changes, geopolitics, or whatever philosophical statements that people make—we as a global investor can predictably look at area where we could deploy our capital with good return.

Chery Kang 26:16

Thank you, Kevin, for that. And I want to get to the case of Indonesia, Chris, and—INA was established to basically bring in foreign as well as the domestic capital into the private sector of Indonesia. That's your mandate now. I wonder some of the challenging narratives that's playing out in Indonesia's governance, the fiscal policy, and so on. Is that making some capital flows hesitate to actually come to Indonesia at the moment?

Christopher Ganis 26:52

Yeah, I mean, I don't think we should dismiss some of the question raised by foreign investors, especially as situations are unfolding, right? I think we have to accept the fact that Indonesia is still a net oil importer. Right? That could create, a significant change on the fiscal number if oil continues to hover at elevated level, call it like \$95 a barrel, right? But I think what we have to keep in mind, try to take a step back, is understand that, you know, at overall basis, Indonesia is a net energy exporter, right? So how do we balance out—how does the government balance out in the fiscal and on the monetary side as well in ensuring that this negative net oil importer can be negated by the net energy exporter and net commodity exporter will be much more critical, right? So I think that's part of the reason why we're here and try to ensure that this communication channel continues to be open to all of our investors and our key partners. I think the reception on the public sector versus the private sector—I think the private sector that takes a much longer view, continues to have a stable and healthy interest of investing in Indonesia. I think the narrative that is continued to go on, especially with this crisis, going back to that people are trying to diversify their supply chain, people are trying to get a close customer base, and people are trying to get close to the raw material. I think, Kevin, you brought up about the CapEx expansion for infrastructure, right? That is what we're trying to catalyze as well, because the difficulty on that is you have to acknowledge that central bankers around the world are probably in a very tough place for the last, I can't remember, maybe like 10, 15 years, right? But they will get through this. So understanding that the long-term infra asset will still be required, how do we navigate the mid—the short and the mid-term challenges as relates to fiscal and monetary, will be critical. If you want look at it holistically, the crisis that we're facing right now as relates to energy is not—it's relatively an Asian crisis as well, right? On an overall basis, we are still, an oil importer, and how do we navigate that together holistically will be very critical.

Chery Kang 29:43

Do you think the Iran war is impactful enough to have sovereigns think about this oil import independence longer term? Or do you think this is just, okay, one tweet and then we move on to the next market concern?

Christopher Ganis 30:03

Yeah, I mean, this is the part where I can't quite reconcile in my head, right? If we become the student of history, the last oil crisis in the last, I don't know, two, three, four decades—it takes about five years to be able to get to a normal level again in terms of the supply. But at the same time, you're also having countries to aggressively increase their reserve, right? So balancing that out, it will create a structural issue on the supply, right? But structural issue doesn't always necessarily bad, right? If you—I think, Aaron, to bring on your point that US is a net oil exporter, we have to keep going back to that it create—it was first created as a structural issue, that led to the shale boom in 2010 or something, right? As China demand for oil spiked up in the rise, right? So how do we react to that and how do we monetize that is much more important. And obviously, I'm saying this with all the respect on everything that is happening in the Middle East. Obviously, it's a real tragedy, not just a monetary opportunity.

Chery Kang 31:22

Time flies. I need to get to the AI angle really quickly and the whole private credit, concerns here. So I think—so for me personally, my New Year resolution was, okay, like, you got to really get this AI thing, you know, understood. Like, I need to use AI more, don't get behind, and I'm already behind, and now the market is catching up to the reality. It's all perspective concerns, Aaron, but it could be real. Do you think—what happens, do you think, in that digestion phase that people trying to figure out what AI can do and how disruptive it will be? Walk us through your scenario in terms of how the market would react to all this.

Aaron Costello 32:14

That's a very easy question. No. Look, I mean, I think taking a step back, again, on a big picture, not short term. If AI truly achieves what people think it's going to achieve, it's a tide that should lift all boats, not just seven companies in the US, right? Individual companies that implement AI will reap the benefit, just like when the internet was unveiled. The kind of—the internet pioneers, their stock prices went up in the 90s, and then they kind of did nothing in the 2000s, whereas all the other companies benefited and there were new companies created. So I think something similar is going to play out. So the markets now are very concentrated in this handful of AI infrastructure companies or whatever you want to call them, and they're spending more, their free cash flow is falling, higher energy prices and input costs can actually derail the data center rollout and some of all of these things, or at least slow it. And so again, like, we want to be diversified, not overly concentrated. And if you think longer term, it's companies that are enablers or kind of the users of AI will benefit, right? And then you're going have some disruption. And so I think the other trend of the past few years, and some of the managers in the audience may agree, it's been pretty rough for active managers because you've just had a handful of stocks going up and up and up, and the benchmarks become more and more concentrated. Hard to beat that. But if those companies start to plateau in terms of growth and performance, and there's all this disruption from AI, well, now it can be a more of a stock picker's market. We actually think hedge funds are coming back to kind of benefit from that dispersion across sectors. Also, just again, equity valuations have gone a little crazy. We want be more diversified, kind of less correlated strategies in general. So I think the disruption from AI is real, but it doesn't imply the handful of companies that have been benefiting the most for the past two or three years are going to continue to do so. And so we need to look more broadly. And just to piggyback on him, right now we're all focused on oil, but the reality is if we're really going to be building armies of robots and stuff, that's metals, right? That's other things that actually Indonesia kind of has, or some other countries in the world have. So, you know, again, we're all fixated on oil, but actually the future of AI is rare earths and metals and all of that stuff. So again, we got to take a longer term view here and figure out where those things are.

Chery Kang 34:36

And along the way, software-related investments are being questioned here. And it's not everyone, and maybe it's just really some of the smaller guys, having sort of relaxed underwriting rules or practices. But could that lead to a bigger problem, is my question And I wonder if that is a factor that can actually delay some of the AI-related progress or developments. I know, Hoi, that you think that it's okay. Like, we don't have to worry too much about it, as long as, you know, things are done right. And then I pushed back on that in pre-discussion. Not everyone is doing the right thing in terms of underwriting. What do you have to say about that?

Hoi Tung 35:31

With respect to the SaaS, I think the overall sector valuation has come down quite, dramatically, haven't it? Because that—because the valuation run up very high during the COVID period, everybody going to online, so that's why. And then came down—has been coming down, but certainly the impact AI had sort of really had further exacerbated the decline, right? So that's a reality. And obviously, whether or not the valuation will come up again or stay at this very low level or even have further room to go down, I can't predict. But the problem is when you look at these companies that have to do underwriting, you have look at the fundamentals of each of the SaaS companies. Some of the company with very, you know, high entry barriers even, but also at the same time, the company itself could embrace AI, using AI to help them to rewrite—re-engineer the workflows, the processes, make it more competitive. So that's—it's not really static, I suppose, whether the—all the old incumbent will die and the AI natives will take over the entire world. I don't buy that story but obviously I think this is mutual. The company that could fully embrace and take the opportunity to improve the workflow through AI, they will definitely survive. And they have certainly also—the big company—or the good—these companies has quite a, you know, the—a sort of very high moat, obviously, their—with their system of record, and also some of the results requires to be very—as is probably deterministic, very precise answers. The AI couldn't give you that. So the AI is basically probabilistic outcome. So these are—with all that, I think, you know, there's definitely is going be combination of—there's some of the incumbents who will change, and obviously some of them wouldn't change or couldn't change. They will die and the—I think that's probably the combination of the both in the end. Having said that, obviously I'm seeing your question relates to the private credit. I suppose I must say the credit is all about, you know, diversification. You can't have a one single very huge concentration in your portfolio. If you do that, well, I think you—or even though the size has some impact on the overall portfolio, but that has—I think that probably is going be manageable.

Chery Kang 37:59

And I think the nervousness comes from the fact that private market is private, so not everyone is sort of across the information and really understand what's going on. And on that note, I want sort of open up the floor for maybe Aaron and Kevin, because I feel like Aaron can ask Kevin about the idea of the whole—the mantra of democratization of private markets and how that can be a source of nervousness playing out.

Aaron Costello 38:32

Well, I don't want to be set up. It's not me versus Kevin. I think there's—

Chery Kang 38:34

No, no, no.

Aaron Costello 38:36

I think there's two things here. I think all the headlines in private credit are—and the stress in the private credit that we're seeing—is these funds that were marketed to quote-unquote "retail or high net worth investors," and the issue is not private credit as an asset class. The issue here is the mismatch in liquidity, saying this is a, you know, semi-liquid or you can get your money back, when in reality it's a private asset class, and the whole reason there's an extra return is because it's illiquid and locked up. So I think the cardinal sin here isn't private credit or private markets in general, it's trying to make them liquid, which to me kind of defeats the whole purpose of the private markets. And so I also think here there's a manager—maybe to Hoi's comment—there's a manager selection issue here as well or a vehicle selection issue where some of these things aren't—weren't as diversified, were more lax. There's plenty of opportunities in private credit, and in fact, the distress in some of these guys is going to create opportunities for other funds that can pivot into that. And so I think that's what investors should be leaning into. So it's not so much, you know—it's just that some of these vehicles were mis-sold and mis-structured from the beginning, and I think institutional investors should just avoid those. But then I'll turn it over to Kevin to defend himself.

Kevin Lu 39:43

Sure, yeah. Chery, you mentioned about the private information, right, for our industry, which is absolutely true, right? I was having a chat with a couple of hedge fund friends yesterday. We talk about two differences between their industry and ours. One is that they love volatility, right? Whenever there is volatility, they can trade on that. We private managers want the stability, we want to be able to sell and buy with certain things, so that's one thing which will work against us. But my hedge fund friends cannot operate with private information, and we can. We can legally do so, right? So that's how—that's the essential source of our return for our LPs, and so I just point out that first, right? And then on the private credit side, maybe two quick points. One is that private credit particularly is a very, very broad definition, right? There are so many different forms of private lending that's going on within this banner of private credit. People seems to follow the headlines, think there's a problem. People need to look specifically which bucket of that is problem, which is not. The majority of this space is not problematic in my view, right? And my final point is what Aaron mentioned. The reason this problem today, people get so much media attention, to large extent has to do with the offerings by GPs to especially individual and retail investor over the last five years, right? So you use the word the democratization of private markets, and we—that's definitely an industry trend, that we're broadening the access from institutions to individual. And in that process, different GP have different ways of working through the plumbing, so to speak, right? It's not only the content of private credit investment, but also the plumbing and how do you sell that to your individuals, right? So for Partners Group, we are actually—we started to sell to individual 25 years ago. Our first private evergreen so-called product was 2001, right? So we have done that plumbing for 25 years, and we still run the largest evergreen fund, which is \$16 billion, our USPE Plus. We have done all the plumbing. So if you've done the plumbing right and your content is largely robust, then you have a much fewer chance to get into the problem today, right? So today, in short, for private credit is—there's a few segments of private credits that are problematic. A bigger problem is, I think, some of our friendly peers probably have structured in a way that is a little more too adventurous from a liquidity perspective.

Chery Kang 42:05

Don't get too adventurous, I guess. So Chris, your final thoughts on private credit-related concerns.

Christopher Ganis 42:11

Yeah. I mean, I think I echo all the gentlemen, to my left and right that, from where I'm sitting—the events that are transpiring in the private credit space is more of increasing the discipline, not exactly the destruction or the demise of private credit. I mean, I think specifically from Asia and Indonesia point of view, a couple of points that I'd like to raise. One is that's probably the most important first—that I'm very grateful that the event that's happening in private credit is not—doesn't have a contagious effect, in the way that we have seen in global financial crisis. There's no systemic effect that I could really think of, right? And even when we think about some of the headline numbers, you know, the default rate back in '08, '09 versus where it is now for the high yield bonds, it's night and day, right? We're talking about 9, 10 percent in '08, '09—I mean '07, '08, and then now it's about 2, 3 percent, and we're still having a public market that's still functioning. The second part that is also important from an Asia point of view, these private assets are here to complement the public market. It's not so much to replace the traditional capital providers like in the developed market, like the banks or the bond market, right? So there's still a natural need for that. And I think this is a good step, a good phase for the asset class to understand the advantage it brings, but also to acknowledge the limitation of this private class, right? That, you know, you can't really simply have a very loose redemption.

Chery Kang 43:59

All right. Chris, thank you so much for that. And I'm going to wrap it up there. I tried to really track where the capital is going in this changing world. Thank you so much for having me, for this panel, important conversation, and of course, for Milken as well. Thanks everyone for listening in, and please enjoy rest of the event. Thank you.