



2026 GLOBAL CONFERENCE

LEADING IN A NEW ERA



CAPITAL IN MOTION: REPOSITIONING AT SCALE FOR THE NEXT CYCLE

Announcer 00:00:00

Please welcome the panel on “Capital in Motion: Repositioning at Scale for the Next Cycle,” moderated by Sarah Eisen, anchor, CNBC.

Sarah Eisen 00:00:26

Hi, everybody. Great to be back at Milken. It's a fun way to kick off the morning. I'm very excited to be moderating this panel about *Capital in Motion* with some great folks that know what's going on with capital: who, what, where it's all moving. So would just like to briefly introduce the panel, Ronald O'Hanley, CEO of State Street, Marcie Frost from CalPERS, the CEO of CalPERS, Harvey Schwartz, CEO of Carlyle, and the president of Morgan Stanley, Dan Simkowitz. And I was trying to figure out as we were walking in, you're the client of all of these three men, right?

Marcie Frost 00:01:02

We are.

Sarah Eisen 00:01:03

So they'll be nice to you.

Marcie Frost 00:01:04

Yeah.

Sarah Eisen 00:01:05

But you all probably do business with each other and are very interesting, different parts of the whole ecosystem. So I think it's great. And we'll find out exactly what's moving where. Harvey, maybe I'll just start with you. We're in this war and trying to figure out, is there a ceasefire? Is there not a ceasefire? When does it end? How does it end? What does it look like? And what does the world look like after? But I'm just curious, is it changing anything about the way you guys are investing?

Harvey Schwartz 00:01:37

Well, first, let me say it's great to be back here at Milken and on this panel with friends and partners. I think we find ourselves at a particularly complex period in history where—stepping away from the economic backdrop, which is quite good, you see it in earnings results—we have this geopolitical complexity, and I think that the uncertainty premium associated around the war in the Middle East, the war in the Ukraine, remains quite high. And I think it's very difficult for anyone to predict really how the ceasefire evolves. I think we remain optimistic that we're moving towards a sustained ceasefire. What does that really mean? How quickly can the Strait be open? You've seen the announcements today on progress of getting ships escorted through the Strait, I think, but what we don't really know is what's the intermediate-term impact of this oil shock, which we're seeing around the world, and you see the big differential between physical oil prices and financial oil prices. But getting back to your question, from an investing perspective, what's really happening, if you take a step back in the way we think about committing capital at Carlyle for five years and 10 years, is a reprioritization of global priorities. And so everywhere I travel in the world, any part of the world, national security is the single highest priority politically and in the economic engine of countries. And what does that mean? It's not just about national security in a narrowly defined defense perspective. It's national security around energy security. It's national security around data security, critical infrastructure, how to think about supply chains. We went from just-in-time inventory in the '90s, then to a period of, okay, we have to have much more elasticity in supply chains. Now it's how much do you need to really navigate a material disruption? So I would say the fabric underpinning what's really driven markets in some respects for the last 50 years is changing in real time. I think this will create enormous opportunities to invest. We hope for a very quick resolution in the Middle East. Obviously, I'm very grateful for our servicemen and servicewomen that are putting their lives at risk in the region, and others, and our friends. But I do think this is, again, this is a process that started in 2008, but the fabric of opportunity and prioritizations around the world is changing. This ultimately needs economic capital. And so all of us on this stage in one variety or another will have to provide this capital. I think the demand for that capital is only going up because of all these factors.

Sarah Eisen 00:04:15

Okay. So Ron, how many flows do you see every day? You're the custodian of all of these people, right? And many more.

Ron O'Hanley 00:04:22

They're great partners. And yes, we see about 11, 12 percent of the world's flows, but Harvey's making a really important point. And if you go back to the post-COVID period, and we actually, Harvey, you and I were on a panel last year where we talked about this in the context of tariffs. There's been a very significant re-globalization that's gone on, firstly around supply chains coming out of COVID. Last year, it was about tariffs and where were manufactured goods going to be sourced from? How is that going to change? You asked a question about the Iran war, and what that is triggering now, I believe, will be a big realignment of capital flows. There's \$3.2 trillion that the Gulf States and the various sovereign wealth funds have deployed now. And that's been an enormous export of capital to lots of people in this room, really all over the world. If you think about the reprioritization that Harvey's just talked about, there's national defense that they need to be thinking about. There's a rebuilding that they need to be thinking about. And then there's building in resilience that they've all discovered, we've all discovered, that they don't have. And the Straits of Hormuz is meant to be a red line that would never be crossed. It's been crossed. To actually now lower the dependency on that is going to require a reprioritization of capital. And that will have long-term implications for the cost of capital.

Sarah Eisen 00:05:54

Money going in instead of coming out from the—

Ron O'Hanley 00:05:57

—Money not coming out. Now, potentially, it'll also be money coming in because it's actually doubtful, nor would it be efficient for all that investing to be done internally. So there will be investment opportunities, but the point being is, is that on a net basis, the amount of money coming out will certainly be lower.

Sarah Eisen 00:06:16

Marcie, how do you think about geopolitical risk and positioning your portfolio in a time like this?

Marcie Frost 00:06:22

Yeah. So we are a \$630 billion portfolio, so it's really tough to turn that very quickly. But I think what we try to do, at least in our CalPERS context, we operate out of the state of California, and what's most important to our board and our 2.4 million members is that they really understand what we're doing when

we see these events happening. And so for the most part, we stay disciplined. It's really important that we're running some simulations on the portfolio so that when something unexpected happens, it really falls more into that expected category, and we can build member communications, we can talk to our stakeholders, we can talk to our board. Because the most important part for us is we're long-term investors. We don't want to be making these dramatic shocks into the portfolio, and I would call dramatic shocks very much geopolitical risk, divesting away from certain countries, divesting away from certain sectors. We are center stage for much of that. But I need to really be complimentary to the organization and to the board. I'm just halfway through my tenth year. We really did stop the divestments, kind of the chiseling out of the portfolio, being consistent and disciplined. So geopolitical risk, something we pay a lot of attention to, but it's typically around how do we communicate with the people who are paying into the system? How do we make sure that we have these simulations happening that we can give kind of a range of expected returns in the portfolio?

Sarah Eisen 00:07:48

How much is US versus international for you?

Marcie Frost 00:07:50

So we are globally tilted as well, especially when you think about our sustainable investing plan, but we're in the major indices. Much of our private markets is in the US and globally, but we are predominantly US, but we have a good tilt to global as well.

Sarah Eisen 00:08:06

Dan, what about you? What are you seeing from big institutional investors, from your clients, around these new risks around energy and geopolitics and the re-globalization that Ron talks about?

Daniel Simkowitz 00:08:20

Yeah, it's interesting because I think there was talk about de-globalization but what we're seeing is just heightened complexity. I think that's the word that Harvey mentioned. And all three of these organizations are big. They're not just clients. I think someone used the term, they're all partners. I think we are a strategic partner with nomenclature across all three. If beta is easy, the value advice can be somewhat subdued. Right now with complexity, the value of—and we're a pretty simple firm at this point. We just help clients allocate capital across these three clients, wealth managers, sovereign wealth funds, corporates—the complexity is higher. I think it's not just geopolitical complexity, but there's complexity across asset classes. And so as you go to these panels during the day, there's equity influences that are influencing credit. Harvey and I were speaking earlier. We have a big commodities business, and so oil and then the second order effects into the economy will affect both micro and macro, and so that complexity

goes up. And in a world that we were talking about de-globalization, it feels as global as I've ever felt it in 35 years. We worry about, and our clients are interested in, the world every morning and the interconnectivity more than I've seen in 35 years. And our job is to sort of take some of that noise and try to create an element around long-term investing. And so I think there are near-term influences, but if you look at our wealth management portfolios and our asset management portfolios, which are now approaching \$10 trillion, and then the advice we give to institutional clients, is to try to take a really hard and long look at the economic dynamics that are going on, and probably the dominant one right now on the investment side and the potential productivity side is AI.

Sarah Eisen 00:10:13

AI. Which we'll get into in a little bit, but just to follow up, Dan, where does the US rank right now in terms of deployment of capital and how attractive it is versus the rest of the world?

Daniel Simkowitz 00:10:25

Well, I think the US is still the primary element, and so I would say to Marcie's point, being overweight US has been a good trade and it still is one you have to take extremely seriously. And we'll get to the aforementioned AI subject, but that's where the capital is being deployed. That's where innovation is. And so in that context, it still has to be important. That being said, we see—and we talked to Harvey about this and his team and others—there is alpha around the world. And so even in Europe, where there could be GDP, beta could be difficult, whether it's in the private markets or in the public markets, we see real alpha in those markets. And then as a business matter, we're following the equitization around the world. So Japan is a real market for us. I think we're partners with all three firms in Japan. Greater China is attracting incremental capital versus two or three years. And then pre-war, certainly, the Middle East was equitizing Brazil. And then there's markets in front of us. Germany doesn't really have a robust capital market, but it could. And if you look at the Japan example, it probably should go forward to keep some of that innovation and capital in region. But right now, I think you have to take the US and the great companies here and the capital that they are deploying in growth really seriously.

Sarah Eisen 00:11:54

Yeah. A big part of it is the AI, right? Marcie, how do you think about how to make sure your portfolio is positioned for our AI revolution right now?

Marcie Frost 00:12:06

So that is something we're, I wouldn't say struggling, but it is something that we're paying a lot of attention to. Our board has been asking a lot of questions around AI governance and the stewardship program that we have at CalPERS. How are we making sure that the public companies are thinking about human capital

disruption and retraining programs? You think about a public pension plan. Someone retires, the assumption is someone gets hired, and if we see that ratio start to really drop down, then that has a real impact on public pensions across the nation. And so internally, we're taking it as human enabled and human in the loop, if you will. That's been our primary use cases. But for us, it's really trying to understand what our public companies and frankly, our private companies as well, how are they looking at deploying AI for efficiency purposes, for innovation purposes? How do we make sure that we're in that communication flow, that we have the appropriate governance, that we can ask a lot of questions around human capital disruption? I'd say that's the biggest concern that we would have about the innovation related to AI.

Sarah Eisen 00:13:08

Is there a metric? Is there a metric where you track it? Is it margin? Is it revenue tied to AI?

Marcie Frost 00:13:16

Yeah. So that is under construction. When I said our stewardship program is really kind of grappling with the types of questions that we need to be asking these gentlemen on stage about how they're thinking about AI, and not to the point that we are releasing any of their intellectual property. That's really important to us that we preserve that, that we secure it. But we do have a strong need to have a better understanding. The regulatory environment still is pretty loose on this, I'll just say that. So, innovation can be very helpful, but I do have pretty grave concerns about disruption to people.

Sarah Eisen 00:13:42

It requires a huge amount of capital. That's one thing, Harvey, right? How much of what you're doing now is focused toward building this out and providing capital to do it?

Harvey Schwartz 00:14:01

So for those who don't know Carlyle, we're only 2,500 employees at Carlyle, but we have 750,000 employees across portfolio companies all around the world, locally in Japan, as Dan mentioned, across Europe, obviously here in the United States. So we're one of the largest employers in the world. We have a very strong belief, this won't surprise anybody, that we're clearly in the midst of a transformational change in technology. I do think you have to ask yourself whether you're a believer or not in that. We are a firm believer in that. The way we think about that is about really how to develop use cases that we can replicate both internally within the firm to make ourselves better investors. So when we're deploying capital for three years, five years, 10 years, obviously the most important decision we make is the moment that capital's deployed, whether it's in our credit business, Carlyle Alpha Invest, or in our private equity business or real estate business. So how do we use this next step in technology to inform that investment

decision, both avoiding investments, enhancing investments, and then really how do we work with CEOs of those companies who are really responsible along with those boards for driving that technological change and improving their performance? And so for us, a big part of that is making sure that we have model fluency across the organization. At Carlyle, you have every employee, because there's only 2,500, has access to all the current models. We do a lot of internal training, but core to what we're doing is about harnessing our proprietary data. So because we're one of the initial firms to do private capital, and David Rubenstein, the founder, formed the firm back in 1987, we've amassed this massive cohort of proprietary data. And what we're really trying to unlock is how to use that proprietary data so that we make better investment decisions, and also how do we use this technology to make the decisions faster. So Carlyle, again, at 2,500 employees, this is not a mission to see if we can run the company with 2,400. This is a mission to see how do we run the company more productively with better outcomes and create marginal alpha using all the data we have and the tools we have. And it's pretty remarkable when you have targeted use cases, Sarah, what you can reveal using these models, which historically was not available. You can unpack situations, and the steepness of the scientific evolution here is incredibly important to what we do. And it's going to change the way we think about investing, the way we deploy capital, and we want to be very much at the forefront of that.

Sarah Eisen 00:16:40

You're talking about using it in a variety of ways, through the portfolio companies, in your own company for investing, but also—

Harvey Schwartz 00:16:44

—I think the life cycle of everything we do at Carlyle, from capital deployment to exit, all of it.

Sarah Eisen 00:16:51

So what about the 750,000 employees that you peripherally—

Harvey Schwartz 00:16:56

—Across the portfolio companies?

Sarah Eisen 00:16:57

Is it going to be 750 or more in five years?

Harvey Schwartz 00:17:05

I think that is a very difficult thing to predict. I think the early stage advances you're seeing are stories around, oh, employment dropping, and I do think you'll see cases where you'll see efficiency. I think the real win is when you see companies delivering better outcomes, innovating faster, and actually being more productive. So I'm a buyer of the productivity story. I tend to be a glass half full person anyway, but I'm a buyer of the productivity story that we're going to get better productivity. I'm not a buyer of the we have massive unemployment. I'm not an advocate of that scenario.

Sarah Eisen 00:17:41

Ron, how do you see it changing the markets and the economy?

Ron O'Hanley 00:17:44

For us, this is a really important question because we do two things. We invest money, and we service those that invest money. That's the relationship we have with each one of our three partners here.

Sarah Eisen 00:17:58

That's the custodian. I think of it as like the plumbing.

Ron O'Hanley 00:17:59

The custodian fund administrator. But if you think about that, it's operationally intensive. It has to be managed to very low error rates, right? If there's an error made by us, every one of these people here get affected by it. So for us, it is about productivity. It's about the outcomes that Harvey talks about. But to really capture the value here, I don't think it's any more about the technology. The technology, even if it froze now, is pretty damn good. And it's not freezing, right? It's getting better and better and better. It's about how it gets deployed. And in many other technological revolutions that we've seen in the past, it hasn't really changed the nature of the way work gets done. AI is really about operating models, and certainly for us, Harvey's got 2,500 people, we've got 48,000 people. And it's how do you make those 48,000 people more productive? I think the role of the corporation as we've seen it for generations now, highly functionalized, if the efficiency done within functions and you kind of deal with the inefficiency across functions, that won't be the case any longer. I think you'll start to see corporations, you'll start to see functions kind of disaggregate and reaggregate around what they need and what the desired outcome is now. And that will take a lot of work. That will take people really thinking about, "Gee, it's not just about more efficiency and how can I do something with five people instead of eight?" It's about how can I do the work differently and really take advantage of the technology we have.

Sarah Eisen 00:19:39

Can it be about growth too, for you?

Ron O'Hanley 00:19:41

For sure it'll be about that.

Sarah Eisen 00:19:42

Just because there's so much investment.

Ron O'Hanley 00:19:43

And I think if you think about all the data that we all have, we have in our firm, Harvey's got in his firm, Dan's got in his firm, Marcie has sitting amongst all the investing that they've done for decades now, it's harnessing that data and using it in a way to make better investment decisions, to make proprietary investment decisions.

Sarah Eisen 00:20:11

What are you guys thinking at Morgan Stanley, Dan, is the best way to capture the value of this? Is it the chips and the infrastructure? Is it the hyperscalers? Is it the enterprises that deploy it? Where do you think is the best value?

Daniel Simkowitz 00:20:25

So I think similar to Harvey, we're big bulls on the TAM, and in particular, I interviewed Jensen a month ago at our conference, and I think he's here today. Yes. I think our view is compute equals intelligence. He says intelligence equals revenue. I think it probably equals revenue and expenses. And so I think as a firm, we're focused on a couple of ways to execute on that. I think first as a firm, to the other comments, it's around data optimization around our business. We've been around a long time. We're one of the largest traders of securities in the world, and then we manage close to \$10 trillion. So there's a lot of data to go optimize. Attached to that, though, is also we're in the trust, advice, and intermediation business, and if we can build productivity into our business, we have close to 18,000 financial advisors and a few thousand investment bankers and then portfolio managers and traders. If we can build productivity there, there is an element around growth, to Ron's point, which is we should be able to actually deliver more value to these

three institutions, but also if there are smaller ones that are existing, which have been economically harder to get to, we'll have the tools to go deploy—in essence, that IP, that trust, that advice—to a broader set of either clients inside of Carlyle and CalPERS and State Street, also to some others. I think as it relates to where the value equation is, certainly the infrastructure plays are a place that makes a lot of sense to be there. But we would argue we're in the very earliest stages here. So if we look back at other mega technology trends and where we are in both capital deployment and where the ultimate alpha is generated, we're still very early. And so if you are a believer on it being transformative and you believe in some element of cycles being repeated, I think it's still worth creating some element of diversification around the potential winners. The one place I would say that we are getting a lot of traction is the firms that deploy. So the non-LLMs or infrastructure players, but just the regular corporate, including some of our own organizations, and we're starting to track that and build baskets. Those who are viewed as optimal deployers versus non-optimal deployers.

Sarah Eisen 00:22:50

How do you tell the difference?

Daniel Simkowitz 00:22:53

Margins, deployment, starting to get metrics, where they are, CEO interviews. You can start to feel which firms are really—

Sarah Eisen 00:23:00

—On CNBC—

Daniel Simkowitz 00:23:01

—embracing it. Especially on CNBC. Maybe only on CNBC.

Sarah Eisen 00:23:05

Yeah. Right.

Daniel Simkowitz 00:23:02

If we create those baskets—

Harvey Schwartz 00:23:09

—Is there another media?

Daniel Simkowitz 00:23:11

I'm not sure. And so in that context, we've been able to create baskets and see our performance. So that's margin, that's ROE around where we bucketed those. And so there is money to be made outside of the pure plays around infrastructure, and I think that'll show up in our portfolios. It is a dominant theme.

Sarah Eisen 00:23:22

When you say early cycle, you're talking about the investment cycle?

Daniel Simkowitz 00:23:26

Yes.

Sarah Eisen 00:23:28

And how early, like in a 10-year cycle? In a 20-year cycle? What does that look like?

Daniel Simkowitz 00:23:31

I think we're going to measure it in percentages because I would argue this is moving as fast as we've seen. You're seeing revenue run rates around some of the companies deploying tools, into especially the enterprise, but also the consumer, which are some of the fastest revenue accelerations in the history of sort of the capital markets. But we would say we're only 10 or 15 percent through the deployment of capital. And as you deploy capital, and if it's as transformative as we think, there will be dispersion. And so there are going to be big winners and big losers, and then there is going to be a real big productivity gain upon the deployment. And in that sense, it's a dominant element. And we can speak to just how it's being funded at some point. But it's pretty interesting how all of this investment is getting funded in the marketplace.

Sarah Eisen 00:24:32

It's being funded by a lot of you here, and it's a lot of funding, right?

Daniel Simkowitz 00:24:38

Yeah.

Sarah Eisen 00:24:39

Marcie, how do you determine who the winners and losers are?

Marcie Frost 00:24:43

Yeah. So as I mentioned, we're kind of grappling with these CEO conversations to really have a better understanding of where we think the winners will be and people who might be a little bit later to the game or later in the cycle, and that is still very early for us as well. We think that there will be significant winners, obviously. As I was driving in today, or riding in my car today—but think about technology as a disruption. So I'm very optimistic around innovation and disruption as long as we have a human capital plan associated with it—but just the abundance of Waymo on the roads and my Uber driver talking with us about disruption, that depending on how concentrated that actually gets based on the trust of the consumer, I think. Wonderful, wonderful technology, but it will disrupt these entry-level positions. And then are there really retraining programs for the gig economy? Probably not. They would have to do that on their own as independent contractors. And so these are the things that we are trying to get the information from our partners, whether those are partners and CEOs in public companies. And more importantly, I think we actually get better, deeper conversations with our general partners about the portfolio companies that they have in the book. Those are very rich discussions. We do have protections in California that will protect the release of those discussions. Although there's a California state legislative bill that would really infringe upon our ability to do that and would require us to look at private equity in the book and whether we can actually get the managers that we prefer. So there's just a lot happening. I agree, it's early cycle, we're trying to get this data so that we can make better decisions. We don't tilt the portfolio or pivot the portfolio very quickly, but on July 1, the board actually approved the implementation of the total portfolio approach for CalPERS, which means we have a little more delegated authority. We have a lot already, but we've got even more now, where we need to be in this place where we're sitting around the table, we're challenging one another, the cost of capital, where should that check be written? Maybe it was written because it was siloed in equity before, but now we have to look at debt, we have to look at credit, we have to look at infrastructure very differently. So we do think that AI will help us with all of the data, as Ron indicated, all of the information, or should say, data that we have, and really turn that into investment useful information that we can make decisions from. But it is early.

Sarah Eisen 00:27:13

It's early.

Marcie Frost 00:27:14

It is early for us.

Sarah Eisen 00:27:15

But when you think about who's vulnerable to disruption, for instance, what the market's telling us now is software is in the crosshairs. Have you changed the way you think and your exposures around software, for instance?

Marcie Frost 00:27:27

So we haven't changed our look too much. I think what we have said, we need to do even more due diligence to really understand the structures of these instruments. I think some of the more recent headlines around software and exposure in the debt markets was partially related to retail investors having access, and were these instruments really set up for the liquidity requirements that would've been necessary? I would have the same concerns about retail investors accessing private equity in the same way. Do they fully understand? Is it appropriately disclosed that they understand that this is retirement savings, and I might be 50, 60 years old and I need liquidity now. Well, you're not going to get liquidity in these illiquid instruments. So I think there's some work to do on disclosures. You're getting into the retail market where you have a wide dispersion of investment sophistication, and so I would worry about those that don't have the sophistication levels to really maneuver these complex tools.

Sarah Eisen 00:28:22

Yeah. Ron, how do we, on the build-out and just the tremendous amount of capital that's going there, the trillions of dollars, how do we know whether we're overbuilding like we've seen in previous tech cycles?

Ron O'Hanley 00:28:35

Yeah, it's a good question. Because if you go back to the late '90s, there was a clear build-out in anticipation of the internet. It all was eventually absorbed. A bit of a difference here is, the energy side of data centers certainly has a long life. It's not clear how long the chip side of data centers do. But I think that the build-out really will be a function of how quickly implementation takes place, and that's really what we've been talking about here. You've got this tremendous technology, and in my mind, the incumbents ought to win here, right? They've got every right to win. The technology is available to them.

They've got the data. It's whether or not they have the wherewithal to actually question the way they've done everything for years, if not decades, and say, "We're going to do it differently."

Sarah Eisen 00:29:27

Who are the incumbents in your mind?

Ron O'Hanley 00:29:28

I'm talking about any incumbent company, whether in my case, it's the custodian banks, in Dan's case, right, it's the broad-based investment banks. There's always this point of, well, will the disruptors come in, take this technology and make Carlyle and State Street and Morgan Stanley irrelevant? I don't think that should be the case, but it does require a lot of change and change at a scale and at a pace that hasn't happened before in terms of managers being willing to actually question even how they've grown up in their own firm, and that they've reached this point, and that point may not matter anymore. We need to think about that differently. So, to me, the market is going to force a very rapid adoption of this because you're going to see these use cases that are taking off, these success stories. Investors like CalPERS are going to say, "Look what's happening here. Why aren't you, State Street, doing this? Why aren't you, Carlyle, doing this?" So I think the adoption will take place. I'm not that worried about the tremendous overbuilding because I think that there'll be a flywheel effect as institutions see the impact of this. But it really does come down to whether the incumbent firms actually have the wherewithal, the will, and the skill to actually do this at the pace that's required.

Sarah Eisen 00:30:46

There are questions about overbuilding, Dan, but also questions about how some of these deals are structured and financed, just because such a tremendous amount of capital is being deployed, and there's questions about circular deals and off-balance-sheet deals. I'm curious what your view is around how all this is getting funded.

Daniel Simkowitz 00:31:04

Yeah, I wouldn't view off-balance sheet as necessarily scary. I think off-balance sheet is a recognition among the big players that they want diversification of funding. So I think if you start at the beginning and you feel like there's this enormous TAM around compute intelligence and then revenue, it's got to get financed. Unlike, I guess, the internet build-out, which was building a connection, this is building up a platform on top of that connection. So that connection is built out everywhere in the world. So when we talk about the tools that are being developed, they can go into the retail market in India, the consumer

market in India, instantaneously. So that infrastructure has already been built. And so what you're seeing, though, is also the core of the financing around this market is coming from the largest and most profitable companies in sort of world's history. So the big hyperscalers and NVIDIA and the other big chip companies are generating big cash flows over the last decade and certainly over the last few years, and they're redeploying that capital. And then some of those hyperscalers, and we're just seeing it in the marketplace, are going to not rely on, and Harvey and I actually have talked about this in the context of investment banks, you can't just rely on one financing market. And so what you're seeing just in the last couple of weeks, you're seeing big hyperscaler unsecured bonds. You're seeing private credit around GPUs. We launched our first public loan deal backed by GPUs this week. We're backing up some secured financing with TPUs out of Google and then contracts with Anthropic. We do need to understand the world is sort of sold out right now on compute, and the value of some of the GPUs are hanging in there much longer and more durable than we think. So you're creating real diversification of debt financing, as an example, but you're also seeing really enormous equity financing. And some of it was done with strategic investors, but some of it is going to come over time into the public markets. And so we feel those of us who lived through fiber and CLECs, this feels a lot more sturdy, both in its demand profile, because we're sort of sold out on compute, and part of that is constraints in the energy market and others. But we also feel underlying that is the investment from some of the best capitalized companies who are looking at diversification of funding.

Sarah Eisen 00:33:29

So does any of it scare you?

Daniel Simkowitz 00:33:32

I think the social issues scare me the most. And so I think I am certainly not, and I voted this way at dinner last night, I'm not in the 20 percent unemployment category, but I would reflect back to a private equity firm that we talked about, which is their companies are using it. But if you do have not 20 percent, but an incremental X percent of unemployment, where's the demand for the product that is actually being produced dramatically more effective? And then how does that filter through around society? And so I think it's the harder question because we're all great at building products and selling services. But the second-order impact and how society works through and what are the economic and political elements of that, that's where I think we're going to have to focus. But that is a much harder, I think, exercise than the power, as Ron said, of the models that are coming out right now. And actually, I've been surprised at the ability for companies to start to deploy that. It's what's going to happen on the back end, five, 10 years from now.

Sarah Eisen 00:34:37

Harvey, just quickly at Carlyle, what role does private capital provide in terms of building this all out? How focused are you guys on that?

Harvey Schwartz 00:34:45

Well, I think it gets to Dan's point, which is anytime you have capital demand on the scale we're talking about, and it's the capital directly, but it's also all the support capacity, the demands on energy, right at a time when energy security is a topic that would be a priority topic, notwithstanding the demand for data center build-out. I think what you need is exactly what Dan said. You need capital diversification and you need expertise. And so we participate in all parts of those capital stacks across Carlyle in parts of the world where we feel we have competitive value to offer. I think, on the question of, you didn't ask me this, but I thought about on the things that make me nervous is the exponential compounding effect of cyber.

Sarah Eisen 00:35:34

Cyber?

Harvey Schwartz 00:35:35

Cyber. And the speed of the technological innovation we're talking about. So for example, vibe coding sounds like a cool thing. Let me tell you something. I should not be coding. I'm 100 percent certain I should not be vibe coding. And some of the trend here is for adoption of skill sets that really historically were tightly controlled, and I think that's an area we need to really focus on, especially with nation-state actors. The notion of building large-scale data centers where, again, you have critical infrastructure in a geopolitically stressed environment around the world. These are all issues we're going to have to think about. One of the big platform aspects of Carlyle is we're the largest scale player in aerospace defense. It's one of the first transactions ever done at Carlyle nearly 40 years ago. And I can tell you the dynamic nature around the convergence of the demand for national security, everything happening in this space—the large language model space and technology—it's extraordinary the convergence around all these things. So it's moving very quickly, but at the same time, I agree with Dan, it feels early innings.

Sarah Eisen 00:36:50

Yeah. Ron, we have a sort of public-private thing going here, and Dan mentioned private credit, so I feel like we should talk about the elephant in the room. Because you see private and public right now. Do you think some of the concerns and worries lately about private credit are merited? Are they justified? Is there a big problem here?

Ron O'Hanley 00:37:15

I think there's a number of concerns that I would describe as important but not systemic or being conflated, and now there's this narrative around systemic out there, and I don't think that's right. I think that we're probably seeing a move into a different part of the credit cycle. I would argue that that's healthy. We haven't had a proper credit cycle in a long time, but that's not private or bank. That's a credit cycle. There is also an element of liquidity, and Marcie alluded to this, in a very narrow part of private credit, some of these semi-liquid funds, and is there the ability to redeem as much as you'd like? That's a different issue that I'm happy to come back to. But in terms of private credit—private credit in some ways has actually been a real benefit to the system. Because if you go back to 2008, why the system suffered was that banks were at the center. Banks are concentrators of risk. All that risk was concentrated, and a financial crisis turned into an economic crisis. Private credit is exactly the opposite. It's a distributor of risk. The actual holders of the risk are widely distributed. Some of it's individual, most of it's institutions and CalPERS has a little piece of a little piece, is the way to think about it. And so from a systemic perspective, if there is in fact a credit cycle and if there are elevated losses, that's going to be widely distributed. Is that something that we should worry about?

Sarah Eisen 00:35:55

We're in a credit cycle now?

Ron O'Hanley 00:35:57

It feels that way. It feels like we're getting to a different stage in the credit cycle, which by the way, from an investor's perspective, is probably a good thing, right? Because the balance of power will—

Sarah Eisen 00:39:05

—Healthy—

Ron O'Hanley 00:39:07

—turn from those that are lending money as opposed to those that are borrowing money. What's getting all the news, though, is this point around redemptions and liquidity. And there, I think we all have to ask ourselves, are these semi-liquid vehicles, are they the right thing for individuals? It's a really small piece, but should we say to individuals, "You know what? There's a five-year term here. We're going to make it easy for you to be in it, but you're actually not going to have quarterly redemption." So I think that's actually the question that we ought to be asking ourselves, but it's a pretty small problem.

Sarah Eisen 00:39:44

Should we have those things? I think you have those things, right?

Harvey Schwartz 00:39:48

Sorry, what? I didn't hear you, Sarah.

Sarah Eisen 00:39:50

These kind of funds, right? That are for retail investors that make it semi-liquid.

Harvey Schwartz 00:39:55

So I'm happy to comment on that. So the evolution of this has really come about over the last five or seven years. And in terms of semi-liquid, when I first started with Carlyle three years ago, I went out and I just met with advisors because I really wanted to understand the phenomenon. And the first thing I said is, "Wow, I'm not sure the industry should have called these semi-liquid. Maybe we should just call them sometimes not liquid at all." Because really just to drive home that. But I will say my experience dealing with advisors is that they are some of the most sophisticated people I've worked with, as sophisticated as all the institutional investors. I'm talking about Dan's people and others, and they're managing billions of dollars. So I'd be surprised if advisors had any misunderstanding about how various vehicles work. I think what we've had here is something Ron described very well, which ties in with software. We've had a unique and disruptive entrant into software, and software was also part of private credit, which has created some anxiousness, and so you've seen some heightened withdrawals. But I think if you take a big step back, Sarah, I think the numbers are 2 percent of all the global wealth in the world, in terms of the wealth wallet, is allocated to private capital. And so there's no doubt that if you think about the returns available to investors around the world, whether it be institutional or wealth, and the benefit they can get from long-term diversification across all forms of asset classes. CalPERS has been managing retirement assets for employees for how long now?

Marcie Frost 00:41:38

93 years.

Harvey Schwartz 00:41:39

Yeah. Successfully, with a large portion of the portfolio in private capital. I think there's clearly a role to play. It's just incumbent upon everyone to make sure the right individuals have access to the vehicles they want, the diversification they want. But again, as you know, you and I have chatted about it with Ron, I don't see this as a systemic feature. I do think it is sort of the early part of the process of solution

adoption, and inevitably it'll go through. But at Carlyle, if someone wants to have a feeder fund where they can get drawdowns or they want to be in an interval fund where they can flexibly add capital from time to time, we just want to make sure we give them as much choice as they want. But my experience has been that the advisors are super sophisticated, as are the end users, in terms of the people that are participating in these.

Sarah Eisen 00:42:28

Marcie, how much of the portfolio is in privates at this point versus public? And is that changing? Are you shrinking that?

Marcie Frost 00:42:34

Yeah. So specifically to credit, we have 4 percent of the portfolio, so as Ron indicated, pretty small percentage overall. Private equity, more significant. Currently about 20 percent of the portfolio. We also have infrastructure and real estate. So I would say for the three-year—not getting into a lot of the secrets that are going to be told to our board in closed session—but we don't see the portfolio changing that dramatically in the next three-year look forward. We think that private markets are going to be extremely important to getting that 6.8 percent return. But we have gotten a lot better at manager selection. We've gotten a lot better at saying yes quickly, but equally important, I think, to our partners is saying no quickly as well. We had a time, and we fondly referred to it as the lost decade. You probably saw that. I think maybe CNBC covered that as well. But we just did not pace private markets appropriately. We were in, we got scared. '08, '09, we got scared, we came out, and when we came out, it was the worst time to come out. Those were the best-performing vintages. And so what we're trying to do, again, is be consistent, have the discipline, stick to the allocations when we can. But again, under a TPA model, you're sitting at a table, and you're kind of duking it out with your fellow asset class leads about where's the best place to write that check. So even though we may have a 17 percent target, there might be times it will be above it, and there could be times it will be below it, just depending on market. So, on the software issue, concentration is great when it's performing well. Concentration is a real problem when things start to cool down, and that's why the diversification and why we even brought private credit into the portfolio in the first place is to make sure that all of these assets are well diversified, because we're not moving the portfolio very quickly.

Harvey Schwartz 00:44:19

To Ron's point, Sarah, on the credit cycle, the economy's still quite strong. The consumer's been amazingly resilient. We have been in this credit boom for a long period of time, so we're starting to see some price adjustment. There was a transaction we looked at, for example, two months ago, which has shifted in pricing in two months. As Ron says, probably healthy. But we do have an expression that we use at Carlyle just to remind ourselves. We say, "Credit is credit." And if you look at the, I guess, three more high-profile alleged fraud situations with Tricolor, First Republic, and everything else. There were private alternative asset managers and banks all involved in the credit. And so I don't really know that you can splice the

world between bank credit and private credit. You just need really good underwriting, thoughtful processes. Fraud is always going to be difficult to detect for anyone. But I agree with Ron, it's been a long cycle, but the economic engine feels quite good. We're seeing as many opportunities to deploy credit today as we've seen, and actually more and increasing institutional interest immediately on the back of this.

Sarah Eisen 00:45:30

So you're pushing back. You don't think we're in a credit cycle?

Harvey Schwartz 00:45:32

Sorry?

Sarah Eisen 00:45:33

So we're not in a credit cycle?

Harvey Schwartz 00:45:34

No, we inevitably will be, but I do think it has to correlate with the economic engine. We just haven't had a recession in a very long time, thankfully, and we have successfully navigated tariffs, war, and geopolitical splintering quite successfully over—

Sarah Eisen 00:45:57

—Inflation, high rates—

Harvey Schwartz 00:45:58

—Just really been a remarkably resilient market. But I just think we need—look, we're all partners on this stage. We need Morgan Stanley to do well. We need our bank partners to do well. So we just want the world to have as much capital available as can be needed at a thoughtfully priced marginal return.

Sarah Eisen 00:46:19

Dan, are you guys changing approach or doing anything differently around—

Daniel Simkowitz 00:46:21

No—

Sarah Eisen 00:46:22

—Private capital?

Daniel Simkowitz 00:46:22

I would say investing alpha is hard. Asset allocation is hard. I think what you're seeing is just that can be challenging. We would agree with the commentary. It's not systemic. I think in the case of private credit, I would say private equity got skewed a little bit to software, and then private credit skewed a little bit more to software as well. And so you have an asset allocation issue against, as we talked about, really transformational changes around AI, but not all software is going to die, and some of it's going to return. And so you have to go through all those dynamics in the marketplace, and it'll find equilibrium. The other thing to Harvey's or maybe Ron's point, the total of direct lending market is maybe \$1.7 or \$2 trillion. The semi-liquid piece is about \$200 billion. That's about 2 percent of the market cap of Google and NVIDIA combined. Those two companies, by the way, can move \$200 billion in an afternoon. And so when we think about context, I think that's important. And on the vehicles—Harvey deserves a lot of credit. He literally goes to our branches a lot. He talks to the advisors. We've been doing private markets with the high end of our wealth management clients for 30 years. You have to start with investor education. The back end of investor education is a liquidity budget. The liquidity budget rules. It has to rule above risk and reward in these clients, and I'm not talking about 401(k)s. I'm talking about the brokerage and advisory accounts that we have. And we've lived through '08 in this marketplace. Importantly, we lived through COVID, and it wasn't that long ago that real estate firms had semi-liquid, and they managed through that, and they managed through it through actually the advisors do what they were getting, and then through the education around that. And so I think in that context, this is just asset management is hard. You'll have some people who underwrote better. You'll have some who asset allocated better within sectors, and then flows and performance will drive off of that. But it seems like the institutional bid for credit, and we're big believers at Morgan Stanley, it's credit. And to a degree, there's an element where that sits in the banks, and then it sits in the asset management community. But where we're most focused is asset management. Public credit, private credit, it's just deploying. And we're seeing in the transactions that I talked about earlier, a lot of gray and a lot of blending. And we can start around innovation, and it might start in the private credit market, and then it ends with a CUSIP and everything in between. And I think you are seeing, among asset owners around the world, an interest in trying to figure out where they can play in the credit market. If you go back 15 years ago, endowments, sovereign wealth funds, the most sophisticated pension funds were not as exposed to credit. Banks have now pulled out. Asset managers are doing more with insurance capital. It's just a much bigger and broader, and I would argue, more sophisticated market today.

Ron O'Hanley 00:49:40

And this is all beneficial to the capital markets. If you go back to '08 and think about how the world locked up as a result of what was happening there, that probably wouldn't happen today simply because the world actually looks at credit the way Dan is talking about it. That credit is credit, whether it's private or bank-provided. And what vehicle it's in, you're almost indifferent to that. It's a very efficient allocation of capital and credit that we've never seen before.

Sarah Eisen 00:50:12

I also want to hit private equity because I think it's been alluded to a few times on this stage, Harvey, and you did this very complicated, interestingly, creatively structured fundraise with the new fund that you're launching. And so I just wanted to give you a chance to talk about it and explain what it says about the environment we're in, either for fundraising or for private equity in general.

Harvey Schwartz 00:50:35

Sure. So, what Sarah's referring to, and maybe I'll take a step back. So we have basically three large businesses at Carlyle. We have a private equity business, we have our credit business, and then we have a business, Carlyle AlpineVest, which the firm acquired in 2012. And for 25 years, it's one of the large hyperscalers in both secondaries, co-invest, and solutions. And the solutions business is a business that as this business grows very dramatically in totality, the solutions business is one where we work with all of our partners and partners around the world to help them reallocate their portfolios. So I'll often be in a room with a CEO or a CIO of a large plan or a sovereign wealth fund. Part of the conversation will be, "Look, we want access to private credit." And then it might be, "Look, we want to modify this part of our portfolio. Who do we work with to change the portfolio?" And it became very clear to us having this internal IQ that we could work with partners, clients who wanted a liquidity solution, at the same time, exposure to our next US Bio fund. And so we created this solution, which is innovative, not particularly complicated, but innovative, and effectively raised \$5 billion in advance of any formal fundraising at full fees. But I think the most important thing about this is this is kind of the direction of travel for this industry. When you hear Dan talk about the efficiency of the capital markets and Ron and Marcie's discussions about how she thinks about her portfolio, it's all going to be about, in this world, how can you be as dynamic as possible, whether you're in liquid markets or less liquid markets, and think about this portfolio allocation and the efficient use of capital. And this is really what this is for us. We run a balance sheet light firm. I think if we were a big balance sheet heavy firm, we wouldn't have come up with something innovative like this because we just would've used a lot of our own capital, perhaps. But in this particular case, we were able to solve a client priority and obviously create this seed capital prior to our formal fundraising. So it's a good outcome for everybody.

Sarah Eisen 00:52:49

So you're blazing a trail here, you think, when it comes to how these funds are going to get raised?

Harvey Schwartz 00:52:53

I think that there will be thoughtful ways of fundraising, but really what drives this is about portfolio allocation in terms of how our set of LPs want to think about allocating their capital. And I think you'll see this evolve. I think there have been discussions from time to time about how do you create tradable underlying assets, like almost trying to merge the go to the ETF world. I think that we're very far long way from doing that for a whole bunch of reasons. But I think more liquidity in all markets is better because we want less friction because it reduces cost in how you create portfolio dynamics. And so yeah, I think we're at the early phases of a more thoughtful way of thinking about portfolio allocation.

Sarah Eisen 00:52:59

Okay, in the final minutes we have left, I'm going to ask everyone a similar version of the same question, Ron, which is if you have \$50 billion to allocate today, where do you go?

Ron O'Hanley 00:53:49

AI deployment.

Sarah Eisen 00:53:51

AI?

Ron O'Hanley 00:53:52

Yeah. AI into our own firm and how we work with each of our clients because as I think about what we need to do as a firm and what we need to do to serve our clients, both from an investment perspective and an investment servicing perspective, it's about how we operate, and it's about how we operate with them.

Sarah Eisen 00:54:13

Marcie?

Marcie Frost 00:54:15

Yeah, I don't think my answer is going to be a lot different than Ron's, both from an internal perspective, again, trying to understand how our partners are really thinking about AI. So deploying to AI, but in particular for us, we got 400 bips of active risk that we have to deploy related to our reference portfolio, and that's going into private markets. So private equity helps us secure the 2.4 million members that we support, so a lot of that will be in the private markets. We think infrastructure with AI for certain. But most of that will be in the private markets. AI would certainly be a sector.

Harvey Schwartz 00:54:48

Wherever Marcie wants us to go we're going to go.

Ron O'Hanley 00:54:52

Yeah, we're all going to go.

Harvey Schwartz 00:54:53

No. As a fiduciary—

Sarah Eisen 00:54:53

—We get it. You're all partners, and you all love each other.

Harvey Schwartz 00:54:57

We are. Dan's clients do. As a fiduciary, we really, Sarah, we don't avoid risk. We just want to price that marginal risk unit for the reward that we can get. Again, I go back to what I was saying earlier. Big, big macro trends, which I think will define the next 10 years, which feel very durable in the fact that they're trends. There's obviously going to be a lot of activity around it, but aerospace defense, evolution of health care, the reindustrialization of industry with the deployment of technology. Energy, I think there's going to be some really fascinating things that happen around the world in terms of economic growth. Again, we were one of the first firms to go to Japan and stay in Japan with a dedicated Japan business. As you travel the world, I think there are going to be a lot of different ways to deploy capital, obviously all influenced by what's happening in data science and AI.

Sarah Eisen 00:55:53

Dan?

Daniel Simkowitz 00:55:54

I said it earlier, I think European alpha versus European beta would be one place that we think there's real opportunity. I think—

Sarah Eisen 00:56:02

What does that mean?

Daniel Simkowitz 00:56:03

Meaning the economy doesn't need to do well, but out of that economy and out of some of the stress politically, you're going to see either companies that need capital or will take advantage of weakness in their either home market or be global winners and adapt. And I think both private equity firms as well as active equity managers in particular, whether they be hedge funds or private equity, can deploy and still generate alpha. I think, clearly in our view, Japan, Korea, even Greater China around the technology of Asia and the demographics of Asia is quite attractive to us. I would say we think the noise is overdone in private credit, but that will create an opportunity. There is an M&A wave coming. The financing of that M&A wave, especially given some of the noise, is going to enable some alpha to be generated by being the financier into that M&A market. And then I think you want to be both long—your best view on the winners on AI infrastructure and all the way through chips, through hyperscalers to LLMs, but also really work through a portfolio around where are the deployers. And not every incumbent's going to win, but some will win really big and be agile enough to go early with some companies that disrupt in certain sectors.

Sarah Eisen 00:57:27

Okay, now's the hard one. Where do you not want to allocate capital?

Daniel Simkowitz 00:57:29

Oh, I had one more. I forgot.

Sarah Eisen 00:57:30

Okay, go ahead.

Daniel Simkowitz 00:57:31

Morgan Stanley.

Sarah Eisen 00:57:32

You did a lot.

Daniel Simkowitz 00:57:33

Morgan Stanley.

Sarah Eisen 00:57:34

Obviously. Where do you not want to be, Ron?

Ron O'Hanley 00:57:41

It's a hard question because I actually think this is a great time to be an investor with all the change that's going on, and disruption usually leads to opportunity. There's probably some places that are a little bit overdone that you wouldn't want to be.

Sarah Eisen 00:57:56

Like what?

Ron O'Hanley 00:57:58

I don't know that personally I'd want to be deploying more into data center development.

Sarah Eisen 00:58:06

Overdone?

Ron O'Hanley 00:58:07

Mm-hmm.

Sarah Eisen 00:58:09

Marcie, where do you not want to be?

Marcie Frost 00:58:13

Well, we are pretty much everywhere, but I think where we have a lot more noise, let's just call it noise, whether that's political noise or stakeholders coming in, some of the developing markets are pretty challenging for us.

Sarah Eisen 00:58:27

Developing?

Marcie Frost 00:58:28

Mm-hmm. Some of the early developing markets would be challenging. We do have some fixed income instruments that are there. They're probably some of our noises, but they're also some of our best performing, frankly. So I wouldn't say there's no place really we want to be, as long as it's legal to be invested there. But when you are underfunded, we're still only 84 percent funded. We have to really keep everything on the table and just understand, again, the cost of that capital and the risks associated with deploying there. So there's nothing specifically, but we do have to be really thoughtful and make sure we've got the return expectation in place, deploying in some of the emerging markets.

Sarah Eisen 00:59:04

Harvey?

Harvey Schwarz 00:59:06

Yeah, so I think Ron said something earlier about reflecting back on 2008 and the evolution of these markets, or maybe it was Dan. I do think what we're seeing is, again, a persistent trend for the next forever is just high deficits everywhere in the world, and that is going to create the demand for the services of everyone on this panel, particularly private capital, public capital, because there's no state capital that's going to be able to support all this drive for economic growth and all the priorities we've talked about. I worry a little bit about the developing world as a backdrop against that. That's not an area where we deploy a lot of capital. But I do worry that as technology and the advancements and the investments and all the things we're talking about in a world where the leading economies will compete for capital and will have access, and the innovation that happens here and in other places in the world, how that extends to the developing rest of the world, I think is a concern, particularly as, again, deficits are so large and the world geopolitically splinters. For sure there's going to be winners. Winners around commodities, winners around policy, winners around certain things. But I worry generically over the next 10 or 20 years about it. Again, it's not an area where we deploy capital, generally, but I could be a little bit concerned about that.

Sarah Eisen 01:00:25

High debted, high debt emerging countries. What about you, Dan? Final word.

Daniel Simkowitz 01:00:26

And again, I said we're a big fan of being very active in Europe. The counter to that is being a little wary. There's multiple debates at Morgan Stanley, because the price may be right in European beta, but certainly, it's a place where we think there's some economic challenges relative to the US and relative to Asia. I think the other thing we would be wary of is being too short-term oriented, in that there are some very big trends, there's some big longer term positive economically, and not to get in too wrapped up in a trading mentality. This is our advice to investors. We have to manage a balance sheet of Morgan Stanley, and there's certain funds that are set up to be very trading oriented, but we would be very much focused on long-term investing right now, and that's sort of the way we think about the advice we give.

Sarah Eisen 01:01:20

So don't be short term.

Daniel Simkowitz 01:01:22

Try not to. It's hard, but—

Sarah Eisen 01:01:23

—And you hate and love Europe.

Daniel Simkowitz 01:01:25

—Yeah.

Sarah Eisen 01:01:26

Okay, well, we're out of time, but thank you all for being so candid, and I thought that was a really great discussion on money in motion, capital in motion. Thank you all for joining us.

Ron O'Hanley 01:01:36

Thanks, everyone.

Harvey Schwartz 01:01:37

Thanks, everyone.

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