



2026 GLOBAL CONFERENCE

LEADING IN A NEW ERA



COMMON SENSE FROM UNCOMMON INVESTORS

Announcer 00:51

Please welcome the panel on "Common Sense from Uncommon Investors," moderated by Michael Milken, chairman, Milken Institute.

Michael Milken 01:15

Well, welcome this afternoon to five panelists who definitely fit the bill—uncommon investors giving common sense. I can't tell you how many investments I was proposed over the last 50 or 60 years that made no sense. One that I remember is our esteemed corporate finance department, Josh, had me meet with this individual who was of American-Indian ancestry, and they told me that he was one of the great geologists in the country. So we met. And that afternoon, I asked him, where did he go to school? What did he learn? He told me he didn't go to school. He didn't do any geology. I asked him, what's his strategy? He told me his strategy is close-ology. He looks where others drill, and he tries to get as close as possible. So we made the decision not to finance this great geologist. So I'd like to start with you, Anne, if I could today, from Guggenheim, Anne Walsh. Anne has a few decades, I'm not telling you how many—more than one—in fixed income, and has seen almost every cycle, from the savings and loan crisis to the global financial crisis to the post-pandemic shock. You look across these episodes, and your firm was unique, particularly during the financial crisis in developing Invest in America bonds and other things. What megatrend do you see unfolding right now, and what do you think most interests that investors should have in focusing on, Anne?

Anne Walsh 03:15

Well, thank you, Mike, for having us today, and thank you to all of you. Yes, I have a few decades in the business, and every moment of volatility feels like a cycle. But believe it or not, it's actually not a cycle. And in fact, we've seen cycles in the past, and right now we have—and we're always trying to be observant of megatrends that are happening. And the slide that's up right now really tells us. Now, I wasn't around in the railroad cycle. I have a few decades, not a few hundred years in the business. But one of the largest megacycles was the growth of transportation in the US in the 1880s. And what's really interesting is the

next cycle that we find ourselves in, and I don't want to sound trite because it's anything but, and that is artificial intelligence and technology. And I'm really going to capture that as a larger and broader technology concept, and that's all sorts of digital architecture, also robotics, telecommunications, and how all this is coming together with such speed that it's really going to be transforming any number of industries. But in terms of its share as GDP, we have seen this kind of pattern before, and I think that's why this chart is illustrative, because everybody sort of feels like this is the first time we're seeing this, and it's not. But it is absolutely investable, but it also comes with creative destruction and a substantial amount of change. I think we're very much in the early innings of what we're ultimately going to see from artificial intelligence and this technology boom more broadly. But I think it's—besides being transformative and investable, one particular area we have to be aware of, of course, is the incredible build-out. And if we turn to the next slide, you can see in terms of the opportunities available, the sheer magnitude of the investable opportunity here in digital infrastructure and its forms it's going to take. Whether it's through private credit, corporate debt, to build out. The data centers alone is going to be trillions of dollars in order to support this technology build, and that doesn't even include all of the other supportive and ancillary areas for investment, some of which are detailed here. Of course, right now, as we're sitting here participating in or experiencing, if you will, not necessarily participating, but experiencing the Iran conflict, we're certainly seeing the impact on energy and the supply chain disruption that's occurring there, and all of this is against this mega backdrop. So this is one of the areas that we're really spending a great deal of time on. And as I say, I really want to focus on the megatrend relative to the headlines, because the headlines will be changing throughout the period of time, but this megatrend is going to be with us for quite some years.

Michael Milken 06:31

Thanks, Anne. Drew, as we all know, and people with us today and watching online, there's been an arms race to finance large data mega projects. And these projects, as Anne has told us, total trillions of dollars. You've taken a somewhat different approach to the AI trade. Walk us through your thoughts on how Fortress has seen the best opportunities.

Drew McKnight 06:59

Sure. Thanks, Mike. It's great to be here. I think Anne outlined a lot of the bigger themes. I think, like everyone, we spend a lot of time on data centers and AI. We've looked at some of the larger mega financings, tens and \$20 billion financings. For us, it's hard to see where we can really play there and really add value, between cost of capital, and just frankly between the size of those deals. We've monitored them, but we haven't gotten involved. This slide, where Jensen Huang walks through the five-layer cakes of AI—obviously the applications at the top, the models, the infrastructure, the chips, and the energy. The two themes we've really played are what we call picks and shovels around AI. And so about a year and a half ago, we bought 30 mobile gas turbines from a publicly traded company. These gas turbines had been on the balance sheet and a little bit orphaned on this public company, and so we were able to buy them well below replacement cost and a bit before there was really this full rush into the power space. And so we were able to buy those 30 turbines. We since were able to buy eight more, so now we're up to 38 turbines. We've now leased all of them to relatively short-term leases to all the hyperscalers that you would imagine. And I think the insatiable demand and need for this power is something that we think's

obviously just getting going. The other thing that I think we think is unique here is we did buy this with the previous management team. So the company was called APR Energy. The management team that we're working with had owned these assets before and sold them to the public company. And there's a lot of IP in terms of how they manage these assets, how they manage the power. And so we're excited about that. And another theme along there on the infrastructure side was a preferred we did into a company called Boyd. It was a Goldman Sachs-led buyout. They needed to refinance their capital structure. We came in to help them refinance their second lien with a structured equity piece of paper, and they actually just sold one of their businesses. We attached about \$1.5 to \$2 billion in the capital structure, and they just sold the AI-focused engineering business for almost—north of \$9 billion.

Michael Milken 09:28

So, Drew, you're really saying you've been seeing opportunities in buying and investing the power that's going to power these data centers.

Drew McKnight 09:40

That's right.

Michael Milken 09:41

Josh, I know when we work together, you love things that are complicated. You always assume that you're going to get an incremental rate of return, and most people will fall away. And you've had a long history of this one. We worked together, but shorting subprime lending prior to the global financial crisis. You might remember that S&P rated 14,000 to 15,000 securities AAA. There's only two companies in America that are AAA-AAA today, but almost all of them were related to real estate. And the most money lost in any one rating category was AAA. So when I saw the amount of data that you had to choose through to exactly understand what these loans were—unless you had computer systems, Josh, you really couldn't. And then on the backside, you invested to capture the returns on the recovery. Asset-backed today is a very important product, particularly in the last few years. It's going to increase in the future. What are you seeing in this space, and what are you doing about it?

Joshua Friedman 11:01

Sure. Look, asset-backed is an interesting area, particularly with respect to residential homes as asset-backed. This was, as we all know, the absolute epicenter of the disaster that brought on the global financial crisis. You had extreme leverage, you had unhealthy borrowers, you had a government encouraging this type of behavior. You had a healthy dose of fraud, as well as very complex securitizations, and then securitizations of securitizations, and in some case, securitizations of securitizations of securitizations. So it was pretty incomprehensible, but it was ugly. Of course, today, we have the exact opposite of that. If you

look today, you have a very underleveraged asset class, an asset class that is not being flooded with supply, and one with very high-quality borrowers who are the homeowners. If you look at the slide here, you can see there's about \$50 trillion of home value, and there's only \$15 trillion of debt. Now, that's a little misleading because about \$20 trillion of home value are homes that have no debt. So it's about 15 on 30. And the other \$20 trillion that doesn't have debt, I think is mostly Ken Griffin.

[Laughter]

If we could go to the next slide, you get a little sense of what that means. Now, when I talk about this—the people on my staff say that my son has the best-known home mortgage because I say this so many times—but my son has a 2.25 percent 10-year fixed rate mortgage at about 35 percent loan to value. And as you can see, that's not unique. Eighty percent of the mortgages outstanding are below 4 percent. And with mortgage rates today in the low sixes, that means that that mortgage is an asset, it's not a liability, and it locks people into their homes because they're not going to move. They have to pay so much more that if they move to a different house, they'll have to get a smaller house, not a bigger house. So that creates a tremendous need for additional borrowing based on people's biggest asset. You could see from the prior slide just how much that asset's grown in value. So, there's capacity for additional debt. Go back for one second just so that I can show that—there we go. So, between 48 percent and 65 percent, which is the historical debt-to-asset value ratio for mortgages, people today are only at 48 percent. So there's about 17 points of incremental borrowing capacity if people just borrow at average levels based on their home.

If you go to the next page for a minute, you can see that that's produced a tremendous amount of second lien mortgages. So if you're a large regional bank, you have customers who are clamoring to unlock the value of their home, yet they don't want to pay back their first lien mortgage. So you have clients who are dying to get a second mortgage. These can be small balances. They know they're stuck in their home. They want to fix up the bathrooms, they want to add a guest house, or they want to pay for college tuition for their kids. But they need to unlock that value, and they don't want to pay back that very low-interest first lien loan. But the banks, on the other hand, because of the mortgage crisis that we had 10 years ago, take tremendously high capital reserve charges to hold second-lien mortgages. So the game here is to partner with those banks or partner with other mortgage originators and provide capital to give second liens. And we have now got about a dozen of these sourcing arrangements where we outline exactly the kind of credits that we want to underwrite. So we say, "Please, we only want to buy second lien mortgages," whether it's a home equity loan, which is a bit like a line of credit, or whether it's a closed-end second lien, which is like a pure second mortgage. We only want to buy them from the highest quality prime borrowers, like 740 FICO scores, 65 percent loan-to-value, high income to interest, people who have never missed a payment. And from the bank's point of view, they can unload these, make a little bit of a premium, they can keep the servicing, and we can package those loans, which may be your 7 percent or 8 percent or 9 percent interest rate, and re-securitize them and earn a 15 to 20 percent rate on the bottom piece. And they amortize very quickly because people like to pay off that 7 percent or 8 percent or 9 percent loan. They're not paying off the 2.5 percent loan. So it's a large, large asset class. You see there have been \$35 billion of these securitizations done. That is nothing compared to the \$5 trillion mortgage gap that you saw from the prior slide. So this business just keeps growing, and it's, to me, I think, the most attractive risk-return in the credit markets today.

Michael Milken 16:06

So Josh, we're all aware of what happened on the other side of who loaned your son money. And so we saw, for example, one of the great franchises, Republic Bank—is not an independent company today—and that they made the decision to loan, I didn't know it was two and a quarter, but two and three quarters to three intermediate loans to their depositors and to their clients, only to discover they were paying 5 percent for CDs overnight. And so the interest rate risk is very understated. And I think, Josh, you've identified a huge market of trillions of dollars here, that based on past history and regulation, will generate incremental rates of return today.

Joshua Friedman 17:00

Well, every financial calamity that I've seen in my lifetime—and I think you taught me this, Mike, back when we were looking at whether it was long-term capital management or whether it was Charlie Knapp's company back in the olden days or whether it was the thrift crisis—is usually based on a mismatch of assets and liabilities together with extreme leverage. And that's what's caused the regulators to be so cautious about allowing banks to continue to put these types of assets on their balance sheets.

Michael Milken 17:30

Thanks, Josh. Rick, we want to thank you for being with us. Some of us might have preferred that you were the Fed secretary, and you were doing interviews in Washington today instead of joining us. But the 5,000 people at the conference and the potential millions online are happy you're with us today.

Rick Rieder 17:51

Thank you.

Michael Milken 17:52

And you have been somewhat unique in talking about improvements in productivity. And especially from AI, that could be a powerful force in bringing down inflation and eventually risk. And that policy rates should be lower today even though inflation is running above target. Take us there as to how you, as the world's largest money manager, are deploying your assets and how you see the future.

Rick Rieder 18:23

Sure. So—and thanks for having me. It's a great honor to be here, and I'm happier to be on stage, quite frankly, than otherwise. So I'll say a couple of things. I don't think the slide's up, but I'll say a couple things

about productivity and—are the slides up? There we go. Okay, so the headline: I think technology's moving at breathtaking, jaw-dropping speed. I think the interest rate tool should move to a more modern thinking, meaning the interest rate tool is an incredibly blunt instrument. And I hear people, "We're not at the 2 percent Fed target. Fed's got to get there. They've got to move, or they've got to keep rates high." What I show on here, and I think the other panel has talked about it, productivity is moving at levels that I've never seen in my career. Technology development—I use this quote that I think is extraordinary, that we think linearly. Thirty linear steps gets you across the room; 30 exponential steps gets you a couple of times around the planet. We are seeing AI grow at exponential pace, and it's changing the whole economic system today. What I put on the chart on the right is you're having a dynamic where productivity is increasing, the line that moves up to the right, and labor cost as a percent of business sector output is dropping precipitously. We are changing the employment dynamic. First thing I would say, if you're chairman of the Fed or you're running the Fed, one of your mandates is employment. I think over the next few years, we're going to have a dynamic where we're not going to be able to employ enough people in this country. That's the first step of where I think we have interest rates need to be supportive of that.

Second thing I would say, interest rates are fighting yesterday's battle. High rates are costing the country real money while doing less to actually fix the inflation problem. What I put on the left side is we finance 89 percent of the debt in the United States is two years and in. We have a tremendous cost from keeping the interest rate high. It costs us \$140 billion per 1 percent move in interest rates. So you put that number in perspective, that would fund the combined fiscal 2027 discretionary budgets of Department of Health, Agricultural and Treasury, Labor, and Commerce. Point being, keeping the rate high—people say we got to keep it high. We've got to fight inflation. It's not cost-free. Actually, could you go back to the one chart? I was so excited about that one chart. What I put on the right side, I am certainly of the opinion we need to bring inflation down over time. I think productivity will bring inflation down over time. What the interest rate tool doesn't do, though, it doesn't solve a problem where you have inflation in places like what I put on the left side of the chart: medical care costs, demographically driven, motor vehicle insurance—I would say broad insurance—not interest rate sensitive education costs, not interest rate sensitive tariff costs, you're not going to help by the interest rate tool. The purple, the reason why I put that in the middle is shelter is an interesting one because if you actually drop the interest rate, we build more homes. Build more homes, you bring down shelter inflation. What I put on the right, and here's the key, is I actually think the rate sensitive sectors in this economy are already in a recession. The places where the actual interest rate tool is creating an impact is a place that they're already under stress. Actually, if you go to the next page, just to build on this a bit more. This idea that it's cost-free to keep the interest rates where they are today, you think about how the US economy, how companies operate, they operate in a global ecosystem. When you keep the interest rate high, you keep the weighted average cost of capital high for companies. And so we said, listen, if you're operating in Europe, Japan, we can debate where the opportunity is, but when you keep the interest rate high, your weighted average cost of capital is up, your returns are lower, and you're functionally in a different place competitively. Last thing I would say is what I put on the right side, and you think about where leverage is in the system today. Small businesses are getting killed by the interest rate tool. Small businesses can't afford to borrow. And by the way, they're the largest hirers in the country today. Big businesses—the NVIDIAs, the Googles—the interest rate tool is not really affecting those companies, but the interest rate tool is really hurting small business.

So the last thing that I would describe around why I think the interest rate tool is a blunt instrument. If you go to the next page. Productivity is going to solve the problem. And I would say, just to put some of the numbers out here, if you take a 1 percent mortgage rate and you think about the cost to a borrower for an increase of 1 percent, what I put on the bottom right, and this is why I think it's a travesty in this country, if you look at the lowest 20 percent, the percent of their income they spend on their mortgage payment is extraordinary. And so that is the bottom 20 percent. Now, what I put on the bottom left, you think about if

you're in the top 10 percent today, you are supported by higher interest rates. You're a net saver. You're an older net saver, but the people on the 0 to 49 percent, half the country has no cash, and they're net borrowers. So when you keep that rate up, you're brutalizing that group of people. And what I put on the bottom right, and this is some of what Josh is referring to. Now, the percent of the time spent that you have to work to get a mortgage or to buy a house is skyrocketing higher, which I think has an impact on fertility rate, family creation, and we can talk about other things. So last thing, I forgot I had one last thing, and then I'm done. I think the interest rate tool—and I thank the Fed Chair Warsh—you could do some very interesting things with the balance sheet. You could do some very interesting things with the term structure of interest rates. The idea that we have to have the overnight funding rate higher—which nobody bought other than the US government, because 89 percent of our debt's in the front end—you could do some things that I think would be extremely powerful to help in terms of where we are, small business, loan, credit card financing. And what I put on the bottom, and just to put a fine point on this, I hear all the time, "Gosh, we've got to have higher rates because inflation's high." The cost, so when you actually break down some of this, what it costs corporate credit, what it costs the federal debt, it's \$300 billion. So this idea that, gosh, it's cost-free, we'll just keep the rate up and we're solving inflation, A, I'm not sure you're solving inflation, and B, the sheer impact on the economy is pretty profound. So, point being, I'm not saying I would—well, I would—cut rates from where they are today. I think the chair will probably wait a bit. But anyway, I wanted to lay out I think there's a real cost to the economy.

Michael Milken 25:08

Thank you, Rick, and I want to mention there are 10,000 slides at the Global Conference this year. You're probably not going to read all of them, but we will make sure, if you go online, you can have access to a lot of these slides, including the ones on this panel. Well, Tony, Rick gave you a significant lead-in here. What is the impact on AI having on public and private markets? How is your firm focusing on what you're investing in, how you're going to invest, based on AI today?

Tony Yoseloff 25:45

Well, thank you, Mike. First of all, it's wonderful to be here. It's a lot of fun to be on the lead-in panel to two of the greatest athletes of our generation after this. So, therefore, I'm very happy to bat clean up in this lineup, and be the last one to present their slides, and I promise I'll keep ours reasonably brief. So the first thing we wanted to show here is what dispersion looks like in public equity markets. And so we took a 35-year view of this intentionally. And what you can see is that, across the last 35 years, single-stock dispersion is close to all-time highs. It's in the 90th percentile since 1990. There's a portion of that that's rates-driven, and there's a portion of that that's driven with all the AI investment and disruption that we've been talking about, i.e., the equity markets see real winners and real losers. That, as an aside, is an amazing environment for absolute return strategies, both event-driven absolute return strategies and relative value absolute return strategies. So I think we all know that equity markets in the US, in particular, are at or near all-time highs. They're doing that despite the fact that you've had quite a few stocks that have not done well. Some of that is software stocks, which we'll go into in a little bit. Other of that is losers, either because of higher rates. And what's made up for it is AI winners and what are called halo stocks, heavy asset, low obsolescence, and things along those lines. The real point I want to get across today is what's

going on in private markets is dramatically different and worse than what's going on in public markets. I think there's been a viewpoint in the allocator community that strategies like private equity and private credit are just levered beta, but better. That they're better than what's going on in the private markets. And my message to you today is actually, it's demonstrably worse than what's going on in the public markets today. And the relative reason for that is you don't have the beneficiaries of AI winners in the private markets to the same extent you have them in the public markets. So the first thing that we put up here is just a simple graph to show how much of buyout capital has gone into software businesses over time. And so 41 percent of buyout dollars, that's across the whole industry in the US, went into software companies in 2025. It's 20 percent in Europe. That contrasts to 7 percent of the public equity indices in software companies. That's dramatically different. 2025 is not an anomaly in that, by the way. You can go back eight years and you're going to see between 30 percent and 40 percent of private equity dollars every single year going into software businesses. So when I say private markets—growth equity, venture capital, those are different asset classes, those are on different paces—a lot of money has gone into private equity.

If you go to the next slide, the result of that is relatively simple if you compare public debt markets in the levered world to private credit, and by private credit, I'm really referring to direct corporate lending in what I'm saying. And so, 23 percent of levered loans in the public markets are software. Eight percent of high-yield loans are software. That compares to low to mid-30s percent of direct corporate lending that's in software loans. My guess is that's gotten a lot of attention elsewhere at this conference. It's relatively simple, right? It's not necessarily that lenders have chosen to put so many of their chips into one asset class. The reality is, if your customers are sponsors, and sponsors are putting a preponderance of their money into software, you probably are going to follow them. And the lesson of this is that, first of all, as a lender, you're paid to not lose money, and as an owner of private assets, you probably want some diversification in your asset pool. As Drew mentioned earlier, there are assets you can own in private markets that might be a balance against this, but there just aren't enough of them, or they aren't big enough to compensate for the losses that people are going to take in software and private markets in the coming years. By the way, if you listen to your growth equity and venture capital friends, they've been saying that AI is going to eat software for four years. So this is not new in terms of a concept. It's just finally coming home to roost today. So I think the idea as an allocator that you can own private market asset classes and hide and be better is just completely wrong and different than it's been historically. This would not have looked this way 10 years ago or 20 years ago. The markets would've been much more congruent with each other. It's pretty amazing how these things have happened. And the big AI winners in private markets, so I'm going to say companies like SpaceX, Anthropic, Databricks, OpenAI—they're owned not only more by growth equity, venture capital, and actually hedge funds, but the ownership of each of those companies is dramatically different than the big growth companies of prior generations. It's much more owned by founders than it was owned previously, and it's different funds and different organizations that have access to those companies because of how they've grown up. By the way, to get my answer to that, I went to Claude, and I asked Claude who owned them, because it's not publicly available. Claude actually gave me really, really good answers on that. So I don't think that you're going to get the same replication of your public market portfolios in private markets. And you've seen that already. Public markets have blown away returns in private markets the last three years.

Michael Milken 31:16

So on Saturday night, we had the 28th or 30th edition of our Global Gourmet Games. And the winner of the premium wine competition went online, put in what the three sommeliers have rated wines over time, what they're more likely to rate high, what they're more likely to rate low, and then bought a wine and submitted it at about a 20th of the price of the most expensive bottle, that was based on this knowledge and won the Gourmet Game wine. I don't know if you're aware of that, Josh. But so, it's permeating everything today. And I just want to follow up on a point that was made here—that Tony made—that you might not have really jumped out at you. There are many different markets: the bank market—we could ask whether its loans are of higher quality or lower quality than the public high-yield market based on their concentration by industry—and the private market. And all three of these have different rating levels, different participation by industry, and I think what Tony has tried to do is lay out what percent of your assets today, Tony, would be in software.

Tony Yoseloff 32:43

It's a very low percentage. And there's a couple of reasons for that. Look, it's a big industry, so it's impossible to completely avoid it, and we have some equity trading books that'll have some exposure as well. My real concern is in recovery value in these assets. And so if you go backwards 15 years ago, the stated rule of thumb for recoveries and first lien debt was 70 to 80 cents on the dollar. Those numbers have been steadily coming down for 15 years. They've been coming down in combination because levered loans are actually of worse quality than they were 15 or 20 years ago. Ironically, the high-yield market is a higher quality market than the levered loan market is. That's number one. Cov-lite or no covenant deals, which started out in public markets and are now very big in private markets as well. So the documents and loans are very similar in these markets, have become the great majority of the markets for larger loans in these periods of time. And most creditors are going to go through liability management exercises, even though 93 percent of them are going to restructure in three years, according to a recent Harvard Law study that we believe is correct there. And so, the average rate of the last five years for recoveries in first lien debt is sub 40 cents. That was 36 cents on the dollar last year. We think software businesses are going to get far less than that because there's really no hard assets or nothing to glom onto once a business gets worse. I cut my teeth at Davidson Kempner in the late 1990s and early 2000s liquidating fiber companies. I was involved in the liquidation of some of the very large fiber companies, 10 to 20 cents on the dollar. By the way, that's back in that environment when people were getting 70 to 80 cents on the dollar on their stuff. So it's not the same thing with fiber versus software. It's obviously different businesses, but I'll take bet—I'll take the under on the recoveries on these things. And so, even as a secondary buyer of debt, you're not going to be right all the time in your investments. What you lose in your investments matters in a way as much as what you make on your winners. The credit businesses are not venture capital or growth equity businesses. You're not going to have a lot of 10 baggers in that world. And so if your recovery rates are pennies on the dollar, just a very tough place to play.

Michael Milken 34:55

Anne, I'd like you to take us into the Guggenheim Investments committee. You have all these inputs. Obviously, you have decades of experience. You have analysts and portfolio managers working for

Guggenheim, some with more, some with less. What does the investment committee—how does it operate today with all these different things going on in the marketplace and pressures?

Anne Walsh 35:25

Well, so the investment committee is always evolving to meet current market conditions. First of all, we have to be nimble. But we've obviously been able to broaden the scope of what it is that we evaluate because the inputs are much wider than they've ever been. We start with your basic enterprise value analysis, and we go from there. I will say that as part of our evolution is—and to add to the productivity of our investment team—is a very substantial investment in artificial intelligence. And I want to call it augmented intelligence because what's happening is it's taking what we know and have as a gift, and that is critical thinking skills relative to machine and machine learning tools, which are really great at pattern recognition, they're really great at scraping data, and they're really wonderful at augmenting what our skilled professionals are able to do. And so that's where we're really harnessing those tools. And the evolution is so rapid, and I'll use your term, Rick, breathtaking, and being very much embraced by our team members to leverage their abilities. So what I would say is that we're able to do deeper and better analysis than ever before. We're able to broaden the aperture of all the inputs into our thinking. And we're able to take, as I say, what the human intelligence is able to use to be much more thoughtful about risk. It's all about risk mitigation and risk management, particularly as fixed income investors predominantly. And in that particular case, what we're really looking at is to try and figure out, looking around corners in the future and being predictive about where those risks are coming. And if I had to think, okay, back to big picture, where are some of the risks? Well, Josh, I'm going to follow on—I'm going to add one more element to your risk categories: leverage, poor ALM, and I would say liquidity. We haven't seen a liquidity crisis in the US in quite some time in our markets, but I would add that in, and capital inefficiencies are a huge risk. So we're thinking about risk mitigation in all ways, and we're using the tools that are available to us at this point and expanding that toolkit in order to be able to do that kind of analysis.

Michael Milken 38:04

So Josh, Anne started talking about risk. What are the risks you're watching for that you believe are underappreciated in the market? And obviously, your investment in mortgage-backed securities was from both sides, shorting and then trying to figure out which ones to buy that were undervalued. What are you thinking the risks are unappreciated?

Joshua Friedman 38:29

When you look across asset classes from, say, real estate to asset-backed to corporate, one of the risks that I think is a massive risk in the corporate sector that is less important in the other two sectors is process risk. When I was at law school, they used to teach us that every contract, in addition to the explicit contractual provisions, had an implied covenant of good faith and fair dealing. You haven't heard that mentioned in a long time. And the nature of LMEs today, of maturity extension exercises and restructurings, involves the most gloves-off, ferocious battles that you could ever possibly imagine, with

wildly perverse results that have very, very little to do with your ranking in the capital structure before you got involved. So you have to be thinking about that really carefully when you get involved, particularly in corporate situations. In securitized land, when you're talking about CLOs or you're talking about mortgage backs or other asset-backed things that involve a securitization, there are very explicit, automatic rules of how things evolve if there are cash shortfalls. So it's vastly more predictable. And in real estate itself, when you're just talking about first mortgages and second mortgages and so forth, it also tends to be a little more predictable. But I think those risks are enormous.

Michael Milken 40:09

If we wanted a short summary, are you talking about violence of creditors on creditors here, Josh?

Joshua Friedman 40:17

Sometimes it's violence of issuers on creditors. It used to be there was a small handful of private equity issuers who were particularly rough to play with. You know who you are. But those tricks have now been taught to everyone. The whitest of the white shoe firms are just as ferocious once they get in the hands of Kirkland & Ellis and others. It also takes place between creditors of the same class. So it's creditor on creditor violence, as well as issuer on creditor violence, and it's a rough game. And sometimes the easiest thing is to simply say, "That game's too difficult to predict."

Michael Milken 40:57

So over the years, there were many challenges, and double-A railroads historically had a 200 percent higher default rate than single-B industrials. And they needed capital to buy engines, et cetera. And so the equipment trust certificate was created, as Josh referred to loans versus assets, so you didn't have to go into bankruptcy. Boston and Maine—that was part of Penn Central—was in bankruptcy for almost 20 years. But you were able to, if they wanted to keep their equipment, they had to pay you. The same thing occurred in the airline industry in the early '70s. When their challenges were great, they started issuing airline certificates, equipment certificates, where you didn't have to enter the bankruptcy, you just got your equipment if they stopped paying. So I think you've identified one of the real challenges today. Drew, I'd like to really address two issues with you. One, you stepped away from software lending a long time ago. Okay, we heard Tony talk about it here. What were the signs a few years ago, not today, that made you do that? And number two, if we look today in equity volatility and the stress markets, your firm Fortress has maybe been as successful or more successful than any others in buying distressed assets. Complicated portfolios, whether it's taking mortgages off a bank portfolio or individual assets. Let's start with, see if we could address both. What is the secret sauce at Fortress that has allowed you to be more successful in buying distressed assets? And number two, why did you back away from software a few years ago?

Drew McKnight 43:02

I guess the more complicated assets and sort of our comfort there, I would probably say the biggest thing is our focus on asset management and the infrastructure and taking on these complicated portfolios, whether it's US commercial real estate or whether it's European nonperforming loans. One of the things that Pete Briger, our chairman and cofounder, used to say is a lot of the guys he used to compete with are all retired. Those businesses are much more labor-intensive, human capital-intensive. I think as you look at some of our peers that have gotten much larger, it's much more efficient, much more probably economic from an equity perspective to deploy capital in the hundreds of millions or billions of dollars at a time, and you can originate those loans with three or four or five people. To work through a portfolio of complex real estate or a portfolio of nonperforming loans, it takes a lot of people, tens of bodies, and you're working each of those assets for many years. And so I think sometimes our return on equity is attractive. Our return on effort, sometimes we question because it is a lot of just heavy lifting, rolling up your sleeves. And I think as the world has evolved and some of our peers have evolved, they've just decided that that's just a little too complicated. Particularly in Europe, we've seen that competitive landscape move and change a lot.

Michael Milken 44:29

Let me just follow up before we go to software, Drew. A couple of years ago, we talked about you took a commercial office portfolio off one of the country's largest banks. And obviously—I think it was 26 loans, if I remember correctly—maybe all of them had to be foreclosed. The bank needed to get it off their books to make the controller of the currency happy, but they probably didn't want to loan foreclose on 26 office buildings, particularly in areas where they had high market share. What's happened a couple of years later to that? How many did you have to put through bankruptcy or take?

Drew McKnight 45:11

Sure. We haven't had to put any through bankruptcy because we've been able to restructure them with the sponsors. But that portfolio, it traded roughly in the high 60s on a dollar, 67, 68 cents as a percentage of par. We got financing on the back of it. We've refinanced some of the loans in the 90s. We've taken out some of the loans—we've restructured some of the loans in the 40s and 50s because that 67 blended purchase price was a combination of allocating some of those loans 30 cents on the dollar and some of those loans 90 cents on the dollar. We've resolved just about half of that portfolio, and the last, kind of, 10 to 15 loans are in various states. Some of them are performing and will likely get refinanced, and some of them we're in conversations around restructuring. But it does take each one of those loans is a team of three or four or five people working on every single one of them, working them out.

Michael Milken 46:11

And I think the point I was trying to make there is the sale can be good for both sides. For the bank, they reduce their real estate portfolios. And for you, who has the ability to manage all these individual loans, it potentially generates an inordinate rate of return. Let's turn to software.

Drew McKnight 46:33

Sure. And I think I might have heard it here. I definitely learned it from you. But I think you used to quote a stat. If you fast-forward three to four years from the sector that had the largest high-yield issuance or leveraged loan issuance, three and four years forward is where you're going to have the most defaults. And so Tony touched on it, but in 2025, nearly 40 percent of private credit issuance was in software. We started to see that creep up going back into 2019 and 2020. And so, I wish I could say we made some top-down AI call, because if we did, we probably should have bought Anthropic equity as opposed to reducing our tech exposure, our software exposure. But we started to take it down really just on a bottoms-up as we saw these capital structures get more and more aggressive, leverage multiples creep up, the structures were getting more and more flexible, and just multiples were getting higher. And so starting in about 2019, our software exposure peaked just above 20 percent. We're now within our lending book at about 7.5 percent software. So it's not to say we have no exposure, but at least versus the market, we feel very much on our front foot. And for the rest of the business, we have very little software exposure. I do agree with Tony, I think that sector is going to be really hard to figure out. I think particularly in credit, Tony touched on it, but when you're picking a credit manager, you really need to think about how are they going to perform in the bad times, because different than equity, your winners can't pay for your losers. Your best loans are the ones that are going to get paid off most quickly. And I think as we look at this vintage of credit managers, and particularly within software exposure, I think you're going to really see a dispersion of returns, which I also agree with Tony. I think that dispersion of returns is finally an ability to actually outperform and to actually show who's doing a good job in terms of private credit managers, who has the asset management to work through these portfolios. Again, we've talked about it for 10 years. We haven't seen any of that volatility, but it's easy to build a private credit business in the context of all you do is offer someone money at a lower rate than the person next to you. And so it's easy to give the loans out. The hard part is getting it back when you actually have to work it out. And so I do think this volatility is going to start to finally leave a dispersion of returns and, from our perspective, and actually an opportunity to outperform.

Michael Milken 49:07

So I don't know if anyone in the audience has ever gone to an auction. But when it's over, the people that won, in particular, tell you they won. Well, what is winning? You offer the highest price. That's what winning was. It doesn't take a lot of skill. You just have to have the financial wherewithal to offer the highest price, and I think what you were touching base on, you can build your book by just offering the lowest rate, the most flexible covenants, et cetera. So Rick, you have a challenge here that I'm not sure anyone else in this room has, and that's you are the largest asset manager in the world: \$13 trillion. Yes, we have some big funds. The Canadians have \$3 trillion. The Australians have \$3 trillion. Abu Dhabi and

their various funds have \$2 to \$3 trillion, and so on. And so according to this, you're up to \$14 trillion. It might be a day old. Okay?

Rick Rieder 50:10

Depends on the day. Today was a little rough.

Michael Milken 50:11

And one of the things that struck me is I think you had \$15 to \$20 billion in some private credit that could be redeemed in a group you had. I don't even know what percent is redeemable today out of your \$14 trillion. But you've often said investors are still anchored to the idea that higher rates are inherently bad for portfolios. How you, on the other hand, have argued today's elevated rates may actually create one of the best backdrop for investing. So we've seen, in January of '21, the US government sell 30-year debt at 1.28 percent. It was a signal to all of us, just go borrow as much money as you can for as long as you can. And that debt traded in the 50 cents on the dollar within two years. So you could lose 45 percent of your money on a US security government, not credit risk, but just interest rate risk. So I've always felt people have underestimated interest rates, Rick. And so I actually have never met a person in, it's now 60 years, who's really wealthy that predicts interest rates. They get it right once, they miss it the second time, and so on. But you have got an enormous responsibility for the people that you manage money for. Whether they're pension funds, whether they're governments, how well you do has a big effect on their future. How are you thinking about portfolio construction today? And how does someone managing \$14 trillion in assets even structure a portfolio?

Rick Rieder 52:08

So I was under stress before I came onstage. This is taking it to a whole different level. So *[inaudible]* about things. My initial part of the presentation was that actually I think the interest rate should come down, I think the risk-free rate for all the reasons I've already articulated. Actually, from an investment point of view, I'd actually like rates—and by the way, I've been criticized for the reason why I'm saying, well, rates lower, it's good for our business. Actually, this dynamic in terms of investing in fixed income, similar to what Anne was describing, is pretty spectacular. Your ability today, if you have inflation run at, let's say, on the high side, we're running 320, depending on what metric you use, you can create portfolios at 6.25, 6.5, 6.75 that are well into investment grade. The last 20 years we had— if you go back, certainly pre-COVID—you had negative interest rates in Europe and Japan for nine years. We had negative interest rates. Think about which is the craziest strategy of all time. But today, you can create portfolios that are 300 base points above the risk-free, above the rate of inflation. That, from an investment point of view, is a completely different paradigm. I grew up with 60/40 as being the—you had balance in a portfolio when you owned the back end of the yield curve, and you were creating some ballast against your equity risk. Today, I think that paradigm has completely changed. Today, if you can create—you think about, I would argue, and I have a very strong philosophy around this—you diversify fixed income like crazy because, as many of the panelists have said, you get paid back or you don't. So you diversify it, and we do a ton with,

whether it's resi, commercial, bilateral credit, et cetera. Diversify it like crazy, but you can clip 6.5 without taking on a lot of risk. Today in equities, I don't think you're supposed to diversify because I think growth is spectacular around industries and tech, et cetera. So you can build a portfolio that's quite different, and part of why I think this is the most exciting time for investing ever, is you have a dynamic today that, yes, you can create real income in a portfolio, and then you can actually find companies that are growing at extraordinary levels. And to build what I would argue is not only better balance, but a better upside/downside convexity than we have in a really long time. You think about Europe today. We've shifted, and including the last couple of weeks, we've shifted some of our interest rate exposure to Europe. They're going to tighten policy into a significant growth slowdown. The ability to buy into—so you could swap back the dollars by Spain, by Italy, and get close to 7 percent. They were negative interest rates for nine years. That dynamic is pretty amazing today. So building a portfolio, and Anne talked about it, portfolio construction is going to move to a whole different level of how you think about what is efficient correlation, what is dispersion, and I think it's a pretty exciting time to do it because there's an awful lot to do. The merger of publics and privates is giving, I would say, in fixed income, we have a million and a half securities now: publics, privates, different parts of the cap stack. So it's a fun time to be an investor. I don't want the rates to come down, although fundamentally, I believe they should, because it's a pretty good time to invest in fixed income and equities.

Michael Milken 55:18

So Tony, you're not managing \$14 trillion right now, maybe in the future. You're wearing an orange tie. So am I. A lot of insight over there, Tony. What people don't realize is some of the people on the panel have total flexibility of buying anything, any part of the capital structure. You have that flexibility. You've bought every type of security, whether it's US, non-US. If you're going to sit in your investment committees next week, how are you thinking of structuring your portfolios?

Tony Yoseloff 55:58

Look, I think there's more than one way to get home, but you have to be focused on both the path to get there and the ultimate outcome. I do like equity beta as a starting point in the portfolio. I think my point earlier is that you've been much better off getting it either in public markets or getting it through venture or growth than you have been getting it through private equity. I think this is the decade of absolute return. I think the dispersion that we saw earlier, you would've seen it over the last few years. And absolute return in the 2000s decade, the 1990s decade, it more than got you home. It would've outperformed 60/40 by itself. People got used to in the 2010s absolute return being a modest performing asset class because interest rates were zero. That's not the normal rate of return for that asset class, and it provides you with liquidity and flexibility to do things elsewhere. So I'm a huge advocate for having a big absolute return portfolio. I just don't think you're getting the same things out of your fixed income and private credit portfolios as you're getting out of absolute return in your portfolios. And then we actually published a white paper on this a couple of months ago. Every portfolio should have some opportunistic credit in it. Opportunistic credit has, again, outperformed overall allocations for a very long period of time, but with low volatility and high diversification compared to other asset classes. Not just in when you earn returns, but when you return capital in the liquid asset classes. And so you need that diversification in your

portfolio. Look, there's a lot of amazing entrepreneurs, growth companies, people doing great things in your portfolio. You need some other stuff to balance it out. You can't own that exclusively.

Michael Milken 57:34

So we've spent a lot of time on risk on this panel, and potential risk. Let's go one minute for each of you. What do you see as the greatest opportunity? Anne, start us off.

Anne Walsh 57:47

So I'm going to follow the word diversification. Thank you, Rick. And I think there's tremendous opportunity in equities. I think the growth story's tremendous in the US, also in other parts of the globe. But we're predominantly US-focused, so I'll keep my attention there. And I think there will be a tremendous opportunity in the future also in real assets, going on with the theme of artificial intelligence: the build-out, the infrastructure that's needed, whether it's digital, whether it's energy. And the tremendous shift, another mega trend, to reshoring in the US has a huge tailwind. The shift from manufacturing being exported post-China entering the World Trade Organization, relative to where we are going to go in the future, means there's a huge opportunity for infrastructure and real asset build. So I think those are critical areas for investment. And of course, I think fixed income at this particular time is also a strong investable opportunity. I agree, rates should be lower. But we're where we are, so we'll take what we can harvest.

Michael Milken 58:58

Thanks, Anne. Drew?

Drew McKnight 59:01

One of Anne's slides where she talked about the different CapEx cycles, and whether it was railroads, whether it was the telecom boom. Like Tony, I sort of cut my teeth investing in the dot-com bust in those opportunities, whether it was cell towers, whether it was wireless. I think the data center CapEx cycle, it's obviously still very early. We're big believers in AI for all the reasons that Rick laid out. But I think the opportunity to invest in the infrastructure, and probably buy some assets that are stressed and distressed is something that I think, bigger picture, is something we're excited about.

Michael Milken 59:39

Thanks, Drew. Josh?

Joshua Friedman 59:40

We're generally operating in the fixed-income markets, Mike, but the whole game for us is to try to get paid a lot of extra return, but not for taking a lot of extra risk. So we try to look at structural pressures that force certain people to sell certain assets, structural pressures that make it hard for certain people to buy certain assets, opportunities to do some things that are maybe a little more bespoke, a little more custom, a little more solutions-oriented, or a little more distressed-oriented. In all those types of situations, it's a much better game than simply getting paid more for being more junior in the capitalization or for taking more risk.

Michael Milken 01:00:19

Alright. Rick, let me give you a little different question here. You have the ability to invest all over the world. You have your clients who come from all over the world. If we were to look at your portfolio and divide it by the world today, what would it look like?

Rick Rieder 01:00:42

So listen, I still think, particularly if you go to the bottom part of the cap stack, the US is pretty extraordinary in terms of innovation, energy independence, a better demographic than the rest of the world, and I just think we're going to get technology and change that is going to be extraordinary. So the bottom part of the stack, it's unequivocal from my perspective. Now, you can layer in parts of the emerging markets that I think are pretty interesting. But bottom of the stack, I run a big global allocation fund, and I've been asked, "Well, it seems like a lot of US." And I still think—and I still think today—that is the best place to be from at the bottom of the stack. If you look globally and you said on the debt side, where are you much more diversified globally? I've talked about more assets in Europe. It's going to grow slow enough to be attractive, both on the credit side as well as we talked about sovereign rates, et cetera. And quite frankly, I actually think emerging markets, and particularly now post the war, or sorry, that's probably an overstatement. Hopefully, knock wood, we're at a later stage of it, but I actually think the opportunities in the emerging markets on the debt side are super interesting. And you got to be a little bit patient where you take currency risk, but those countries are going to slow growth-wise. They're going to have to be easier in terms of policy, and the carry is fantastic. So we've been layering on more emerging markets, again, managing some of the dollar beta around that, et cetera.

Michael Milken 01:02:09

So Tony, you're going to walk into your investment meeting next week. What is the most exciting thing you're expecting to hear?

Tony Yoseloff 01:02:20

So I'll give two brief answers to that. So I'll give the contrary to what Rick just said, and keep in mind that we don't have the large equity long portfolio that would be part of a \$14 billion, trillion-dollar, excuse me, institution. I think outside the United States is super interesting. We're very active in Europe and Asia. We're very active in convert markets in Asia. We're very active in opportunistic credit markets, both in Asia and in Europe. There's such inefficiency in these markets compared to what you have to the United States, and there's been such a focus on what people call either good or bad as American exceptionalism in investing, that people have almost forgotten about the rest of the world. I think there's a super amount to do in the rest of the world, both in credit and maybe more equity-type stuff within credit in terms of opportunistic credit. So that's answer number one. And then answer number two, to go back to where we started. There's tremendous opportunity in how stuck private equity is now in terms of lack of DPI, capital structures that don't make sense, sponsors that have raised their last fund and don't know it yet, et cetera. Fill in all the blanks on that, that it's going to keep us all busy for years.

Michael Milken 01:03:30

Alright. Well, it was wonderful to hear common sense from uncommon investors. We want to thank each of you not only for your success, but for joining us today. Thank you very much.

Anne Walsh 01:03:41

Thank you.

Announcer 01:03:43

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

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