



MULTI-ASSET MANAGEMENT ACROSS PUBLIC AND PRIVATE MARKETS

Announcer 00:00

Please welcome the panel on "Multi-asset Management Across Public and Private Markets," moderated by Romaine Bostick, TV anchor, Bloomberg Media.

Romaine Bostick 00:20

All right. So public and private markets. Someday, I guess we will get to the point where this will just all merge into one, and we won't really have these distinctions anymore. But it's great to have all of you here because you all sit in different places in the capital ecosystem—from sovereign wealth, obviously real assets, external managers, direct co-investment. I just want to start off just talking about it, maybe in just one sentence to get us started here. One of the biggest changes that you've seen in how alternative assets function within a multi-asset portfolio—how has that changed over the last five years? And I will just start with you, David, since you are sitting right here.

David Steinbach 00:58

Well, I think that the way investors are looking at the asset class more broadly has changed, and I think the nature of some of the investors are also changing. So specifically, private wealth is really emerging as a significant investor within real assets more broadly. Last year at Hines, private wealth was about 25 percent of our total capital raise, and this year it'll be about 50 percent. So, it shows this significant shift, and I think those investors are under-allocated, and they're looking at the current market that we're in as one where they want some inflation protection. And they are looking at supply shocks that are happening in the market around us and seeing real assets as a safe haven, but also a driver of growth in the next five years.

Romaine Bostick 01:48

Shikha?

Shikha Gupta 01:49

Thanks, and thanks for having me here as well. Future Fund turned 20 this year, and we've always been practicing a total portfolio approach for this entire time. So, we try not to make a huge distinction between the asset classes. So, to your point, it's all a bit one, and it is more around what is the risk that we are trying to get, what is the role in the portfolio. And so, we have always been proponents of alternative assets. If anything, in the world we're living in today, we think the importance of that is only going to increase, not decrease.

Romaine Bostick 02:25

Rohit?

Rohit Sipahimalani 02:27

Well, I would say the environment we are in today is one of heightened uncertainty compared to anything we've seen in the last few decades. So, in that environment, it is very difficult to predict what's going to happen three to five years from now, let alone next year. And so, the premium that you should expect to get from illiquid assets in today's environment should be much higher than what we have historically got in the past. So that is something we've got to be conscious about. The second thing is that also has implications for the relative mix between different alternative assets. I mean—if you look at the last five, ten, 15, 20 years, private equity has typically earned about 500 basis points returns over, let's say, private credit or infrastructure. And if you look at most capital market assumptions today, they would say going forward in the next five years, that difference is probably 100 basis points or 150 basis points. So, you would probably see—you're seeing, therefore, a shift in terms of how people are thinking about allocation across different private assets, and then so are we.

Romaine Bostick 03:29

Nabeel?

Nabeel Qadir 03:31

Good afternoon. From a Lunate perspective, we manage a multi-asset class private market fund. So, what that means is that we are investing continuously across private market asset classes in a single fund and across the capital structure. I think one of the key things for us is to ensure that there is a lot of diversification in the portfolio. And to Rohit's point, what I would add is—we are in an environment of significant disruption. And the way we approach portfolio construction and asset allocation is to create as much diversification as possible in the portfolio. And the way we like to think of diversification is to try to understand the key drivers of returns and ensuring that we do not have in the portfolio investments that are highly correlated to each other, not just from a market perspective, but from an underlying return driver perspective. So, I think what has really changed from our perspective is focusing more on creating that diversification—if it's industry diversification, which tends to be the biggest source for us—but including geographic diversification and then being multi-asset class.

Romaine Bostick 04:37

And Mike, as somebody who is actually, I guess, trying to evaluate all these GPs and managers, what are you looking for?

Michael Brandmeyer 04:43

Well, our conversations with clients have moved beyond asset allocation in the traditional sense, and now it is really much more about what are the exposures and the interaction function. How are those exposures interacting with the economic cycle? How are the exposures interacting with each other? How are they interacting with liquidity? And in today's world, you have to have the geopolitical environment, which is also having some influence on how you're constructing a portfolio. And so, we spend a lot of time talking about the interaction of these different factors.

Romaine Bostick 05:14

Well, Shikha, that brings up a good thing because I know the Future Fund has been pretty vocal about this idea of taking a more holistic approach rather than just the allocation by asset class, by asset class. What does a holistic approach look like in this day and age?

Shikha Gupta 05:29

I think a lot of people are going that way right now, but it really is about looking at every opportunity against everything else that you have and making that relative comparison, and we apply the same lens. We always look at what is the underlying drivers of this opportunity, what is the role in the portfolio, and what are the risks we're taking, and then making a really conscious decision whether that's additive to our portfolio or it's not. And so, it is a really spectrum-based approach, and it leads to a lot of internal collaboration, and sometimes that means a lot more meetings, but it does mean that we come out with a portfolio that is very purposely built. It is not overly diversified within silos just because we have a bucket that we need to fill, but it's actually looking forward into the market environment and looking at what we currently have and then building from that.

Romaine Bostick 06:26

Well, doesn't Temasek kind of do something similar? You focus on structural and strategic as a way of allocating, right?

Rohit Sipahimalani 06:34

Yeah. So, we're primarily an equity investor. Our mandate is to generate higher long-term returns by taking equity risk. But even in that context, we also have a very illiquid portfolio because we have a very high concentration of private assets, which traditionally have given us much higher returns than listed equities. Now, in the context of what I have said right now, that premium for liquidity has gone up a lot more. So, one is we're looking to do more in liquid equities—from, say, 20 percent to about 25 percent. But more importantly, we're also changing how we are looking at other asset classes in that context. So, for example, private credit, because it has shorter duration and has a high cash yield, again, it contributes to the liquidity of the portfolio. So, we would do more of that, particularly in areas where we can get double-digit, equity-like returns. The other thing that, obviously, as we look at the portfolio, we are very focused on trends—

what are the long-term trends that we see, and how do we invest behind them? So, AI is an obvious one. At one level, we can say we see the opportunity—we want to double the exposure we have to AI beneficiaries over the next four years, till 2030. But the other side of that is the risk side. We know that many industries are going to get disrupted by AI. So, when you look at that, then what are the types of things you look at? More of hard assets—so more of infrastructure, more of commodities. And then when we look at these asset classes, we say these are also asset classes which do better in a higher inflation environment. And for our portfolio, which otherwise is more growth-oriented, this provides more balance and resilience. So ultimately, that's what we're trying to do. When we are looking at different pieces, we try to see how do you maximize resilience. And it is a very, probably overused word—you hear everyone talking about resilient portfolio construction—but for us, it's critical because 80 percent of our portfolio, or 75 percent of the portfolio, is illiquid. So, you have to construct your portfolio to be able to have a narrow range of outcomes across different environments. So, which is why, again, we're looking at asset classes like royalties, closed block insurance, other things which are non-correlated with equities. And therefore, from five years ago—where our main alternative asset class, private asset class, was private equity—today we are spread out across many more asset classes because they reflect the risks and the return outlook of the current environment, and you construct your portfolio accordingly.

Michael Brandmeyer 09:03

One point I want to add. I thought that was a good point on duration with credit in particular, because I do think a lot of investors right now are looking at credit, particularly in real assets and real estate specifically. But to remember that the duration question is, I think, a real one because you are going to get that money back at some point. And what's happening, at least on the equity side, is we are at an uncommon investment entry point on the equity. And what you don't want as an investor is to get all that money back after equity has fully recovered, and now you're coming into equity at a much different point in the cycle. So, I think diversification clearly is a great strategy, but just in the right quantity.

Rohit Sipahimalani 09:39

Yeah. And actually, it is particularly more important right now because on private equity, your duration is getting extended more and more. So, you want to have that balance, and ultimately, having liquidity is one thing that I keep emphasizing. In today's environment, that's the biggest source of resilience in the portfolio, and that's why looking at that becomes more important.

Nabeel Qadir 09:59

Yeah.

Romaine Bostick 10:00

Go ahead.

Nabeel Qadir 10:00

And I think what I would add into this context is that particularly if we're managing a multi-asset class portfolio, private credit—and in fact both senior and mezzanine credit—are great J-curve mitigators. You are able to generate yield immediately, and that is how we look at portfolio construction, where the senior and the mezzanine piece tends to generate yield immediately, helps to mitigate the J-curve. And then you

combine it with, let's say, VC and growth, which tend to create convexity on the upside, and then you have got your core portfolio of buyout, real estate, infra and that tends to be the key return drivers.

Romaine Bostick 10:39

Well, I am curious though, too, just about this idea. Are people asking for that liquidity, or is that just what people are trying to sell?

Rohit Sipahimalani 10:47

Well, our situation is different, right? Because we invest out of our balance sheet. We don't get net new capital injections from our shareholder. So, we need liquidity to make new investments. And usually, you can do that through divestments, but you can't always rely on divestments depending on the cycle you're in, right? Out of your illiquid investments. So, liquidity is key. Secondly, there are so many shocks we cannot predict. Who would have thought that we are in the situation we are in right now? We want to make sure that our portfolio has strong balance sheets and that they are liquid so that when they have these shocks, they can survive them. If you can survive the shocks, you will probably come out okay. And at some times, we would need to put in capital into those companies. I mean, a class example was COVID. Singapore Airlines, which we have a controlling interest in, we had to inject \$15 billion into the company—not just so that it could survive, but when everyone else was short of capital, they could renew their fleet, become more fuel efficient, and actually strengthen their market position. So, liquidity was a big source of resilience at that point in time. And I think that is where I am coming from, from our perspective at least.

Romaine Bostick 11:54

David, I do want to go back to the real estate side of this and what people are looking for. Is it still just income? Is it diversification? Is it the inflation hedge, economy hedge? What are they looking for right now?

David Steinbach 12:05

Well, I think right now investors are looking down at the investment cycle that we are in, and they are looking at public equities and how it's pricing; fixed income, how it's pricing. And they're looking at real estate, real assets as something that is at the early innings of a recovery. So, the reset happened in 2022 when rates went up 500 basis points, and we are still bumping along the bottom, if you will. And that is, I think, a really important point when you're looking at relative value. I think the second reason that investors are focused on real assets with a new lens is this investment cycle that we are in. And I mentioned supply shocks earlier. I think it is a really important point in terms of what is happening right now in the global economy. And it's the supply shocks of policy of de-globalization, which is a much bigger theme, but also, it is what is happening with national resiliency, right? And countries everywhere are looking at their supply chains. They are looking at everything from energy, chips, defense, you name it. And that is driving a whole new wave of demand in all the major geographies around the world. And so that also is creating these new corridors of demand that's going to support the new economy as we go forward.

Shikha Gupta 13:14

And—

Romaine Bostick 13:14

Go ahead.

Shikha Gupta 13:15

Sorry. I was just going to add to David's point. I think we completely agree. And actually, back in 2021 during the pandemic, we came to a conclusion that the world has fundamentally changed, and we are living in this new investment order, which means we will see more fragmentations, possibly higher inflation, and more volatility. Of course, you don't know where the volatility is going to come from. But we looked back and said, "Well, is our portfolio prepared for this?" And quite frankly, the answer was no. So, we made \$100 billion worth of changes to the portfolio, reorienting it to this new world. So, we added strategies that were more diversifying, added more inflation protection in the portfolio in the way of commodities or liquids or infrastructure. And just tried to actually, again, to your point, focus on liquidity. So, I think prior to COVID, it would be where are we getting returns, but now it is always, are we flexible? Do we have enough in the bank to play offense if needed?

Romaine Bostick 14:18

Mike, I want to bring you into this. What do you look for from these managers now? I mean, whether you take real estate, has that changed how you evaluate what they are going to deliver?

Michael Brandmeyer 14:28

Well, yeah. If you look at what's happening in the world right now, there is massive industry disruption that is being driven by lack of liquidity in private markets in general. And so, if you go back over four or five years, you have the Fed raised rates by 500 basis points in 2022. And if you look at private markets in general, you should expect to see, as a percentage of NAV(Net Asset Value), about 20 percent come out of portfolios a year. That has been running between 10 percent and 13 percent now for a fifth straight year. And so, what is the impact of that? Fundraising is down about 28 percent since 2021, which is putting a lot of stress. Real estate has been through three or four cycles in the last 30 years, and then they got hit by an interest rate shock, but it is not contained to real estate managers. You also see it obviously in the post-2021 venture world—a lot of disruption. And so, I think what you have happening is a "show me" moment among managers, because all of us expect both different asset classes, different exposures, and different execution or managers to play different roles in their portfolio. And to some extent, that has been a mixed picture over the last three or four years. And so, I think at a high level, things look normal. On the other hand, just beneath the surface, there is a lot of stress that is happening at the manager level. And so, I think it's going to cause a lot of disruption that we're all going to have to adapt to, in some cases take advantage of, or mitigate in the coming couple of years.

Romaine Bostick 16:07

Shrika, you now have two microphones. So, I hope you have a lot more to say here. [Laughter] So maybe some technical issues. But Mike, just continuing on that thought, are you saying, "Okay, we want someone who can deal with the inflation risk," or someone who could deal with the supply chain shock or whatever you want to call it here? Does it get fragmented like that, or is it a little bit broader?

Michael Brandmeyer 16:34

I think it depends a little bit on what purpose an allocation is serving. Obviously, if you're talking about the hedge fund space, you're looking for portfolio convexity, correlation, and volatility control, and different factors like that that might interact more with macro factors more. You are going to look through to the managers and see what levels of exposure they are giving you across these different macro factors. So, I think of the managers as really the micro part of the analysis—you need to make sure that they build up into something that you are managing effectively toward these goals.

Romaine Bostick 17:07

And Nabeel, I'd like to hear from you, given that it's a relatively newer platform here. You're doing a lot of the same things. What's the difference?

Nabeel Qadir 17:16

I think from our perspective, the biggest question that we probably have in private markets right now is the delta between TVPIs and DPIs—Mike's point. I think that has really widened out. Managers will have to find a way to address that, and I think you will see managers be creative with that, and we are seeing that. We are seeing continuation vehicles. Now, over time, obviously, that has to play out and work out. But I think from our perspective, we think the opportunity set remains attractive. We think private markets have a key core role in any portfolio to play. And I think manager selection becomes even more important and relevant in this environment of disruption. It is very clear there will be some managers who just benefit from market and multiple expansion—from things that are sort of outside of their control. But we will say that we're a large LP as well, and there are managers that have demonstrated significant value creation ability on the operating side of the business.

Romaine Bostick 18:21

Yeah. I do want to talk a little bit more about inflation. And Shikha, I'll go to you—we can put that microphone to use now. Future Fund published a paper recently kind of talking about the inflation area environment, maybe even the potential for disinflation in certain parts of the world. So how do you think about something like that—that, A) is hard to predict, but also you don't know how long that particular trend might persist?

Shikha Gupta 18:44

I think we address that with a lot of humility. You can't predict it—you are 100 percent right. It could be supply-side inflation. You never know if it's caused by oil or something else. But what you can do is prepare the portfolio for different regimes. So, the way we think about resilience planning, it's really about scenario testing. And so, well, we have a number of scenarios, and the one that we are probably putting a slightly higher probability to is one of ruptures—so more fragmentation, more volatility, more inflation. What can you do in your portfolio? Add more levers—add more levers that can actually withstand some of this, because the previous correlations just will not work in this new world. And so, you have to rethink that. And so, we have added commodities, we added a bit of gold. We actually added inflation-aware strategies in the portfolio. And we added, actually, interestingly, we're putting more emphasis on manager skill—to your point, Nabeel—because we think that's actually a more resilient return stream in this environment.

Romaine Bostick 19:43

On the manager skill?

Shikha Gupta 19:44

On the manager skill. And so, we actually build that into our expected return forecast, and we put a higher value to that because we need that to realize our return objective.

Romaine Bostick 19:56

Mike, how are you evaluating that manager skill?

Michael Brandmeyer 20:00

Well, it depends obviously by asset class, but we spend a lot of time in private markets bringing it right down to the individual principals at the firm and saying, "Okay, can we go and do the diligence?"—find out by talking to people on the boards with these individuals who is really adding the value. Our approach in private market manager selection—and this cuts across whether we are buying a GP stake or doing a secondary of the different things that we do—is it's really about the individuals, and we are very focused on value add at the company level. So, we are looking for folks that can show on a recurring basis that they know not only which asset to buy, but they know what to do with it after they have bought that asset. And one of the things I might just add as it relates to the disrupted environment, one of the things that we've seen—I mean I've been doing this for 30 years, so I've seen a lot of different cycles—is I think it's easy to say there's a lot of disruption right now, but one of the things you will see is a lot of people come through this really well. And they're going to emerge much stronger. And so, we're in this period—and we see this again through our Petershill strategy, where we are buying GP stakes in private market firms—you have this period of uncertainty, and going into that period, of course, everybody kind of looks the same. Financial engineering, company value add—it's harder to tell the difference. And then as we push through this cycle, it's going to become really clear who is differentiated out there, and that is where the money is going to flock to: The people who are really delivering what managers are supposed to deliver, which is the active management of the assets: The purest form of active management, as we like to say, is real corporate value add.

Romaine Bostick 21:47

Go ahead.

Nabeel Qadir 21:49

I think from our perspective, data becomes very critical. I think we're spending a lot of time collecting data on how managers perform and why they perform the way they perform. And I think that for us, data is very crystal clear—it's black or white. So, there are obviously the soft elements in due diligence—the principals, the people—but we think there will be an element on data that really matters in manager selection as well.

Romaine Bostick 22:14

And David, your view on that too, because you have talked a lot, particularly about real estate, kind of going from what in the past might have been more of a beta-type investment to a lot more alpha.

David Steinbach 22:23

Absolutely. It's one of the big trends we're seeing as well, and it is like the last 40 years have been downhill skiing in many ways because of monetary policy, and that's to me, the chase of beta and financial engineering. Those things—a lot of value was extracted, created, however you want to look at it. And now we're in this world of this cross-country skiing, and that for us is alpha generation. And it is all about execution. It's all about execution right now. And in that world, I think there's going to be a big sorting of managers to the points made on the stage already. And I think some have described it as a K-shaped economy. I kind of think about it as like a barbell economy happening, where you've got the middle is going to get squeezed, and you're going to have to either scale or go niche. Kind of choose which side of history you want to be on. But to remain in the middle is not going to be a real choice. And what's interesting about this chase for alpha is the discussion about AI and data and how on the scale side—how those managers that are scaled are going to be able to bring some differentiated value above and beyond what we've always been able to do, which is really have that hands-on execution, but really being empowered with these new tools that are coming to take it to the next level. And that's again, why the middle's going to get squeezed, because they don't have access to that technology and those tools.

Romaine Bostick 23:45

I should just also point out—I didn't tell you guys this in advance—but when you answer my question correctly, you get a free microphone, so congratulations, Nabeel. Rohit, we'll give you a chance at this. I am curious though, in all seriousness, we talk about creating diversified portfolios, but obviously when times get bad or you have big sort of macro shocks, we see correlations just boom—completely go to one. I don't know if the question is how do you guard against that, or more importantly, how do you make sure that you're constructing something that even if those correlations do narrow, that the effect will be temporary?

Rohit Sipahimalani 24:22

So I think the key difference we look at is what is really the mark-to-market impact in the short run, versus what is permanent loss. And by permanent loss, I mean a permanent discounted cash flow loss in the business. Because you could have volatility at a lower mark, but if the business can survive that, and the true hit to cash flows is more resilient, then that doesn't matter to us because we can hold through these assets over the long term. So that's the approach. And then the other thing is that, look, as Shikha said, we look at scenarios and look at different scenarios of the world, but we also know we can't predict every scenario. So, we also look to see how balanced is the portfolio, how much of this portfolio is at risk in a higher inflation environment or in a recessionary environment. And if you look at the growth-inflation matrix and you have a relative balance across different areas, that tells you that you have a more balanced portfolio. And then if you have low leverage, because leverage can kill you, it's highly likely that you'll be able to survive that downturn and come out okay. So, no one's going to be immune if you have a massive shock like the GFC, etc. The most important thing is that you don't run out of business and don't have to force-sell your portfolio during that period of time, but you can hold on and ride through it. It comes back to liquidity, resilience, and most importantly right now, I think we are very focused on saying we don't want to use leverage as a source of returns. That should come at the end. A little bit is okay, but have the ability to give you that flexibility to ride through shocks.

Romaine Bostick 25:59

Nabeel, I want to hear you on that flexibility issue too. So, when markets do move against you—particularly in a way where you think it might be long-lasting, how quickly can you change your asset allocation?

Nabeel Qadir 26:09

We're obviously very, very flexible and, for example, our approach to asset allocation is a combination of strategic asset allocation along with a total portfolio approach. What that means is that we evaluate deals on how it impacts the overall portfolio. Having said that, we also have sort of buckets where we want to fill those buckets, but if things change, we meet every week as an IC, and we have the ability to do that. I think the key thing from our perspective, again, is that in an event where there is disruption or a market event, what we focus on is what are the underlying return drivers of those investments. And just as a simple example, if you're invested in a software company that is serving the US government as one investment in your portfolio versus animal health nutrition company in your portfolio, the revenue drivers of those two businesses are very different. So, in an environment where there is disruption or there is a market event, these two should actually not be correlated at all. That's the sort of approach that we take.

Romaine Bostick 27:18

And just a reminder, too, if you have a question for the panel, you can just use the QR code there and we'll make sure we relay them to everyone up here. I do want to get a little bit more thoughts, though, about what changes—if at all—when you get these big shocks. Because there is sort of an argument, too, of maybe you stay the course, and particularly if you're a longer-term investor, David, and you have assets that maybe—obviously, you might have some short-term issues that you have to deal with on your balance sheet, but there isn't a real sort of mark to market that you have to deal with, at least in the short term.

David Steinbach 27:52

Well, I think, yeah, and I think the way I would look at that is, one, there's the opportunity set, which I think these supply shocks that we're talking about, this cycle that we're in, I think is going to bring. And I think that you have to believe that that is significant enough to offset some of the liquidity, other things that are on the other side of that. Because you're right, this is private real assets. It's a longer-term investment plan. I think, though, again, when I look down at the cycle and what's happening, and I compare it to other asset classes, it's an uncommon moment right now. And I think with the supply shocks as being kind of this theme—the lack of new development, the lack of things that need to be happening that aren't—is at historic levels. And so, the amount of new development that's happening around the world—I should say that's not happening around the world right now—is at a historic level. And that is going to drive rent growth, that's going to drive cash flow returns, but you have to be able to make the investments today to take advantage of that. And so that makes it a buy opportunity right now for investors. But you have to have your eyes wide open on the business plan, eyes wide open on the duration of some things. And I think there's great benefit in that. There are great returns in that, and durable returns in that, especially in light of some things that we've been talking about. But there's a clear trade-off.

Michael Brandmeyer 29:14

One of the things I might just add there quickly is, obviously, we talked about the benefits of diversification, which you need badly in this world. But going back to my comment on how liquidity

interacts with the portfolio, one of the things that has evolved quite a bit in the last ten or 15 years is the amount of liquidity available in private markets. And so, you see the traditional fund structures, which are still the best organizing principle, but there's a lot of new technology that's being developed. And so, if you look at the secondary market today for private markets, there were \$250 billion of transactions last year. We think over the next four or five years, that could go to \$500 billion. And so, investors' ability to realign their portfolios is very different. And so, as we interact with clients around the world, because we're a big secondary liquidity provider, we're seeing really two things. Obviously, investors are taking advantage of being a liquidity provider and extracting the premium you get from that. But also, many investors are saying, "Hey, just because I made these commitments, it's a commitment, it's not a tattoo. And so, I can look at my portfolio, and I can evolve it over time." It's not just a tanker that has to go in one direction. I can have more degrees of freedom than I had ten or 15 years ago, when there really wasn't much liquidity. I used to run our secondaries platform 20 years ago, and when I first started in that business, there was \$3 or \$4 billion of liquidity in that market. I think we looked at 137 transactions that were \$1 billion or more last year. And so, there is a lot more liquidity out there and ability to adjust portfolios.

David Steinbach 30:46

Yeah. And I think you're bringing up a huge—let me just make a huge point, actually. I think that there is going to be a lot of product innovation. You look at the statistics: in 2008, there were about 8,000 public companies. Today, there's about half. Meanwhile, global wealth has doubled. So, there's double the money with half—at least in the U.S.—half the public markets to look at. So, I think innovation is going to come to fill that void. And I think the secondaries market—I look at Europe and the ELTIFs and different ways that banks are looking to apply liquidity—these things are going to come into the system to help. I mean, capital is like water, and it will find its own level. And I think that the differential in pricing and market opportunity is enough that people are going to get creative.

Rohit Sipahimalani 31:32

And the only point I would make was that I agree that, yes, there are more tools for secondary liquidity for private assets, but when you have a real crisis, that's what's likely to dry up. Well, it's got to be at prices that you really don't like. So, in some sense, you need to actively manage your portfolio and your commitments and your liquidity to do those transactions ahead of time and plan for it. Because if you really wait during a period of crisis, I think those pools of liquidity are going to be too expensive to tap.

Michael Brandmeyer 32:02

Oh yeah. I 100 percent agree with that. But one interesting footnote is that you can't change your whole portfolio in a crisis—absolutely not. But even there, there are portfolio finance solutions that have been evolving, and so people do some preferred solutions, cash flow swapping, those types of things, where it basically provides an ability—and it's not at the moment of stress, for sure. But we've seen a lot of innovation, and so I think that it will continue to develop, and it's not going to be your go-to. Your privates are never going to be your go-to—let's manage it in a crisis. But the technology is just moving very quickly here.

Romaine Bostick 32:40

I do want to—there was a question from the audience, and this kind of has to deal with all the talk about corporate direct lending and some of the concerns there, and the attention shift to asset-based finance. And he wants to know what you guys think about this sector and its role, if at all, in your portfolio. Shikha?

Shikha Gupta 32:38

Yeah, sure. I can go first. Look, we think asset-based finance is a very interesting space. We've probably been increasing allocation to that over the last four or five years. It's very similar to just direct lending, but you have much more diversity in the underlying pool of exposures that you're getting. And actually, quite frankly, I think direct lending has become very vanilla, very beta. And so, this is one way of actually accessing a different market, which can be a bit more complex—and so you get paid for that, taking that risk and that complexity.

Romaine Bostick 33:36

And that's substantive. It's not just like the shiny new object, right?

Shikha Gupta 33:41

Oh, yeah, absolutely. And it requires real skill as well. So, the manager's skill comes into play here as well.

Nabeel Qadir 33:47

Yeah. From our perspective, when we look to allocate to the senior credit bucket, we have a bucket that we think is more direct lending, corporate leverage, and then there's the asset-based side. And similar to what Shikha said, we've also been very conscious in making sure that our private credit exposure, and particularly our senior credit exposure, is diversified across asset-based finance and corporate lending.

David Steinbach 34:12

Was that from the start?

Nabeel Qadir 34:15

It has probably increased a little towards the asset-based side—given where we're seeing spreads. Spreads on the corporate side are just too tight, and I think that's just a fact.

Romaine Bostick 34:25

Another question from the audience—and this goes back to the idea of changing things around when times get tough and the idea of becoming overly tactical. I'll read it verbatim: how do you differentiate if it is a shift in asset allocation or tactical asset allocation? Who wants to take that one?

Rohit Sipahimalani 34:46

I can start. Look, our perspective is that we have to think long term because there's so many shocks happening every day. If you start reacting to every one of them, you're going to get whiplashed. And given

the fact that 75 to 80 percent of our portfolio is illiquid, we just can't afford to do that. So, I do think it's very important, even in this environment, to have that longer-term perspective. But portfolio construction becomes the most critical way to navigate through these environments—to make sure portfolio construction, adequate liquidity, low leverage; if those are the things that you revolve your portfolio around, you can afford to take a long-term approach, even in this environment.

Nabeel Qadir 35:27

I would add to that, I think what is important is absolutely not getting whiplash but managing vintage risk. You don't want to be moving your allocation such that you're taking the downside, or you're not investing when things are going up, or you're investing too much when multiples are too high, and you're not investing when multiples are too low. I think that's a very important factor and that balance between what is really necessary to tweak in your asset allocation versus reacting to the market. I think that's something we are very conscious about.

Romaine Bostick 35:57

One thing I am curious about, when we talk about just risk budgeting overall, we kind of know what the tools are in the public market to a certain extent. We kind of know what the tools are in the private markets. Are there tools out there that span those markets, sort of straddle between public and privates? Do you need something unique? Are you using something unique?

Shikha Gupta 36:19

So, I think we customize sometimes products that will suit us. So, we did a project recently that I was involved in looking at real estate credit. And actually, through the work, it became really clear that sometimes that's attractive, sometimes it's ABS, sometimes it's liquid credit, sometimes it's something else. And so that's what we created—a product that can actually span across the liquidity space, across the capital stack, and be able to move around because actually in this very changing environment, that's actually really valuable. And again, there's actually a bit of alpha in that dynamic asset allocation that happens within that bucket. So, you can do that. I also wanted to just raise a point on shifting asset allocation. So, I'd probably disagree with a few of the things that have been said here. We move asset allocation around. We can move it quite dynamically. But what we probably move less around is the risk level that we're taking. And so, if credit is unattractive, we will sell that. There's no obligation for us to hold credit in the portfolio—and vice versa for equities or any other asset class for that matter. But we will be very, very specific on what level of risk we're taking, what is the exposure we're taking. And so, we've got, historically, thankfully, lots of successful examples of doing that in our history, where we've been able to move that around, and that's actually one of the magics of the total portfolio approach.

Rohit Sipahimalani 37:42

I also think for us, we look at public equities or public markets not just to follow a benchmark, but usually we take concentrated positions. And it's a question of deciding where it's better to play—in the public arena versus the private arena. And because today those markets are very different: the public markets are very large-cap focused; a lot of the private markets are not. Secondly, if I'm thinking about investing alongside a theme like AI, where things are changing so fast—now do I want to make a private commitment where I can't really change my position easily for the next five to seven years, or do I want to invest in a liquid position where actually I can pivot if I see things changing? And clearly, in something like

that—a dynamic environment like AI—I would rather be more publicly exposed. I will have private exposure, but then have private exposure in areas like, for example, data center, real estate, infrastructure, where I have contracted leases, rather than in other areas where just the range of outcomes is very wide. There, I'd rather be in the public markets and get that exposure. So, I see that as a part of portfolio construction. They meet different objectives in our portfolio beyond just the liquidity issue.

Romaine Bostick 38:54

But on the AI front—and Nabeel, I'll pose this to you—particularly in the private space, how do you go about evaluating that? He brings up a good issue about duration, if you will, the duration of this technology, which is this short now, versus whatever the investment horizon might be.

Nabeel Qadir 39:09

When we think of investing in AI, we look at the AI value chain, starting from energy, infrastructure, the chips, the foundational models, and then going towards the apps. I think it's fair to say that in the public markets, the semis—the chips are available. And that's where you'd be investing in the hyperscalers. But beyond that, there's very limited opportunities. So, we've invested, for example, in data centers, in the infrastructure side of AI. We have invested in some of the foundational models. And we are now looking to invest—and we've done a few investments—on the apps. So that's how we think of investing in AI. And we think that is something that is gaining momentum, particularly on the VC and the growth side. But I think you're going to see also the infrastructure side becoming a little more mature, and you're going to see some of these companies come to the public markets. We think that's a very large market in the private space, and that's something that we're pretty keen to invest in.

Romaine Bostick 40:16

But do you think—and maybe Mike, you can answer this—is there a mismatch right now in those durations? For the AI investment?

Michael Brandmeyer 40:23

It's hard to say that there is a mismatch when there's so much capital going into the hyperscalers, the mega theme. I think there's a little bit of a question of public versus private here as well, and as investors, where do we want to put our bets? And going back to your question—are investors doing a good job of thinking about their privates across public and private, and are the tools developing? I find that a lot of the impediments are behavioral or cultural in looking at a question like this. We talk to a lot of different clients, and really it's about how do you marshal your intellectual capital, how do you look at the risk budget together, how do you think about pacing and liquidity in the context of investing behind a thematic like this? And a lot of organizations, I think, are struggling with this question right now. But I wouldn't say it's a problem of duration. I think, in my mind, it's a little bit of a problem of we're at this moment where the uncertainty is high and there's a lot of different outcomes. It's an absolutely fascinating time right now, but there's a lot of capital being put on various different bets.

Romaine Bostick 41:40

I mean, part of the issue also has just been the widening aperture that we're seeing with regards to the investor class. And I know, David, you've sort of been building out your private wealth business—I don't know if when you were a kid that's what you dreamed of doing—but it's here, right?

David Steinbach 41:54

Yeah. It's here.

Romaine Bostick 41:55

Okay. So how are you managing that?

David Steinbach 41:57

Like I said at the beginning, I think this is a big theme that we're going to, again, see play out in the next five to ten years. And when you look down at all the pools of capital, you've got this pool of capital that's about twice as large as the traditional institutional sovereign wealth pension fund, growing twice as fast, and at least in real assets, broadly very under-allocated compared to traditional sovereign wealth pension funds. And so, you look at that—it's twice as big, growing twice as fast, and under-allocated—that means that there's going to be a lot of money coming into the system from this world, and it's going to need a home, a place to go. And I think that that's where the innovation comes in, and I think also the opportunity set comes in. That is really interesting and something to watch. But I also think that these investors are looking at the world differently than a lot of the traditional CIOs at a pension fund or sovereign wealth fund, in the sense that the world that we all grew up in was a world where we had different product types, asset classes, and things kind of had a place, and we allocated capital accordingly to efficient frontiers and things that we learned in school. And I think that a lot of this new breed of investors that are coming look at it a little bit differently, and they're a little bit less focused on maybe maximizing the resiliency of a portfolio versus maximizing aggregate gain that they're going to get. And so, they're going to look at the world in a much more fungible way. And they're going to think about liquidity. They're going to think about all these different product types, asset classes they can go to, and they're going to look for high returns. And even some of these questions of liquidity are probably going to be a little bit less of a concern if they have their head around what risk they're taking. And so, I think that that's going to change some of the dynamics that we're talking about. Again, for the amount of money that we're talking about that's going to enter the system, that just has a different perspective on it.

Romaine Bostick 43:52

But dealing with that different perspective—obviously, this gets to the liquidity issue or the perception of it—but also just transparency, right? I mean, we're talking about assets that, for the most part, those cards get held pretty close to your chest. And you have a new class of investors coming in that they want to know what's going on.

David Steinbach 44:07

Yeah, and I think that that's obviously where some innovation needs to happen. But in my entire career in real assets, real estate, there has been nothing but a series of things that have created more transparency.

That transparency has created more liquidity, and that liquidity has generated better returns. And it's groups like Bloomberg, for example, have done a great job bringing a lot of transparency to the market.

Romaine Bostick 44:29

Thank you. We appreciate your business. *[Laughter]*

David Steinbach 44:07

—a lot of transparency to the market. I think that there's going to be a lot of answers to those questions of opacity that are going to get solved. And again, I think that's part of the opportunity set.

Michael Brandmeyer 44:41

I might just add in that if you look at this whole democratization trend, I think some of the focus is a little bit misplaced, and maybe that's because we're in this education phase right now. We don't think of these things as semi-liquid. We think of them as evergreen or open-ended because they're not liquid—that's not the right word. There's this huge education curve that is going on. But let's get back to why we, as institutional investors, like private real estate or like private credit. The reason is simple: you're talking about buying quality assets with good managers. There is a premium return in these assets, and I think in particular in private credit and in real estate, these are assets that individuals can understand. I think those will probably be the two big food groups, at least in the next five or ten years. Certainly, they're off to the best start. But I think these are assets that people can understand. They've got a yield oftentimes. You can see real estate around you. So, I think a lot of this is about education and understanding. You certainly don't want individuals to be in structures that they don't understand so that when things get dicey, they get really nervous. That's not a recipe for anybody to be happy. But I think we have to get back to the fundamentals and why we, as institutional investors who've been doing this for multiple decades, are still interested and still think there's a lot of reason to have these types of things in the portfolio. And if we can develop the right guardrails, the right education, at least for an extended group of investors, who are we to say that they shouldn't be involved?

Romaine Bostick 46:25

So I'm curious, if we get to this idea, Nabeel, of the structure of the portfolio—this multi-asset class structure here—and then you have the allocators on the other side: Are they both looking for the same thing? Are they on the same page right now? What are you seeing?

Nabeel Qadir 46:45

Yes and no. I think when we look at a multi-asset class portfolio, we first try to understand, obviously, what return objectives we want to meet. And that's how the structure of the portfolio comes into being. I think from our perspective, where the challenge obviously is, return expectations tend to be different, and risk appetite tends to be different. And when those two things diverge, that's when you have a challenge.

Romaine Bostick 47:18

So, we get to this idea now, as we go forward, we're embedding all of this into these multi-asset portfolios. My question for all of you is what is the number one—or at least maybe not number one—but one of the

more important aspects of portfolio construction capability? And I'm going to start with you, Mike, since obviously you're evaluating a lot of these folks here. This circles back to the first question, but the idea is that what you're going to be picking for now is for, obviously, a return five, ten, 15 years down the road.

Michael Brandmeyer 47:55

Well, I think it goes back to some of these fundamentals that we've been talking about, but also having some flexibility in your implementation so that when these opportunities come up, you can either pivot or take advantage of some of these different factors. And so that starts with a robust portfolio design, which we were talking about. And one of the things that many, many more investors have come to talk to us about more recently is hedge funds or absolute return strategies. I think they left a lot of investor portfolios for a period of time. We've seen a big return here because people say, "Okay, this actually brings something that beta-centric, credit-centric portfolios aren't bringing me." But having flexibility and having a liquidity budget to take advantage of things when they change—and this could be, I mentioned, what's happening in private equity, in private markets right now around the lack of liquidity. But I think also there are gaps that open up in the market that you want to take advantage of. We see a lot of this in sort of mid-duration, special situations credit, where they don't really fit into one of the buckets. And so, how do you take advantage of stuff as it changes?

Romaine Bostick 49:08

Yeah. I'm just going to twist that question around here, and I'm going to go to Shikha on this. When you look at just where we stand right now and what's embedded in this multi-asset class portfolio structure, and you look ahead to five years from now, what are we doing wrong today that five years from now you'll look back on and be like, "Okay, that shouldn't have happened?"

Shikha Gupta 49:33

I think there's a gross underestimation of regime change, and so a lot of the portfolios that are being built are being built with the correlations of the past world. And so, I would just say be very deliberate in the construction, very deliberate in the risk you're taking, the economic risk you're taking in the portfolio, and then think about the future world as you build it.

Romaine Bostick 49:55

And when you say regime change, we're just talking about just the global—

Shikha Gupta 49:58

Just more fragmentation.

Romaine Bostick 49:59

Got you.

Shikha Gupta 50:00

That world we're living in. And I just don't think the previous correlations apply in the new world. And so, you have to be creative and think of strategies perhaps that are long volatility oriented, long inflation, which can help you play offense when needed. And absolutely agree with Nabeel, everyone here said liquidity becomes even more important. It becomes a strategic optionality in your portfolio.

Romaine Bostick 50:24

Rohit, I'd like to get your thoughts on that as well.

Rohit Sipahimalani 50:27

So I think it's very important—well, I agree that, look, there could be regime shifts, and we may look back and say, "Look, we completely missed something." But which is why I think when we're looking at portfolio construction, you have to look at scenarios, and you've got to see how your portfolio will navigate through those scenarios. You can't rely on just historical experiences or historical correlations. And I think that's something we just have to do. But I think for every investor in portfolio construction, I think the most critical thing is being clear as to what your return objectives are and your risk appetite, and trying to see whether the two are compatible. And on the first one, I mean, particularly what's important—for example, we are an absolute return investor. We have absolute return goals. A lot of people say that, but then when you have performance which may not meet certain benchmarks—and we say we're not a benchmark investor—but people still look at that and say, "Oh, but you underperformed." And you can't try and solve for an absolute and a relative return and within constraints you identify for yourself. So, I think it's very important for most investment and asset managers or asset owners to agree with their boards or whatever governance structure they have as to what are you trying to achieve, what's your risk appetite, are those two compatible? Or if they're not, what is the alpha we need to achieve to be able to get there? And then see how realistic that is or not.

Romaine Bostick 51:49

With regards, though, to your point also about fragmentation, regime change—whatever you call it—we should point out, three of you obviously aren't based here in the US, and there are a lot of US investors knocking on your doors. I talk to them a lot, and they're always going, "Oh, Australia and Singapore and obviously the Middle East as well." Is that sort of reflective of that regime change maybe that we're in right now?

Rohit Sipahimalani 52:13

In terms of the?

Romaine Bostick 52:15

In terms of where the allocators are looking, where the money is going.

Rohit Sipahimalani 52:20

For us, what's important is having the geographic diversification. It comes back to what I talked about scenarios. You cannot predict for sure as to whether US exceptionalism will end or it'll not end or what's going to happen, but you need to have that geographic diversification so that you're not only betting on one regime sort of succeeding. Secondly, given the geopolitical environment we are in, you've got to sort of recognize and not invest in areas which are exposed to those geopolitical risks. So, we increasingly are looking at investing in areas or companies which have access to large domestic markets and are relatively self-sufficient from a supply chain technology perspective within one geoeconomic sphere of influence. So regardless of what happens in geopolitics, if I invest in a hospital in India or certain consumer brands in China, I mean, those are not going to be impacted. So, I think we have to factor in the environment we are in and on the geographic side, like I said, you've got to just have the diversification. And you've got to factor in the geopolitical environment to think about the types of businesses you want to invest in.

Romaine Bostick 53:25

David, do you want to defend the US?

David Steinbach 53:28

Well, I do agree. I'll say it a little bit differently than you were saying it a minute ago. I think there's a lot of recency bias in the system right now. Nobody here on stage nor in the audience, I think has invested in the environment that we're in. So, I think the way you need to look at the world in terms of just national resiliency, where the opportunity is, new technologies coming, the things that are going to matter, the correlations that don't matter anymore, new streams of capital, all these things are coalescing around a new era of investing. That's exciting. It's a big opportunity. There's a lot of opportunity ahead, so I'm very optimistic about it, but I think that the thing that's going to get in the way is the simple thing of recency bias, right? Of "this is how the world works. This is my framework. This is how things should operate." And I think that that's a bit myopic in terms of how to look at things, and I think that those that can see that bigger picture and see that wave of change that's already well underway are going to be able to have uncommon returns as a result. And I think to get to your question about the US, I do think the US is going to be an important part of the economy. How it fits in, how it works, it's going to evolve. It already is. And is that scary, or is that an opportunity? I think that investors are going to find the way that that's an opportunity and how to make the best investments in light of that new operating environment. But if we're trying to solve for an old world, just hoping it comes back—fingers crossed, let's hope it comes back: I think that is not a fruitful place to go.

Nabeel Qadir 55:00

Yeah, I think what I would probably just add from our perspective is it is critical to underwrite to what you believe is the right risk-adjusted return. And for us, sometimes, without the geographic diversification cannot work in your favor because you may be taking a risk-adjusted return that may be inferior just for the sake of geographic diversification. So, I think from our perspective, we go where we see the best risk-adjusted return, and across that asset class too, I think it's very critical that you have these hurdle rates, and you understand which asset class, which geography is the right return at which you underwrite those deals.

Romaine Bostick 55:41

And Mike, I want to draw too, just on your decades of experience, and we talk about this sort of rubbing shoulders right now of public and private markets. Does that just at some point just kind of mesh together, meaning we won't really be having these conversations in ten years as them being distinct asset classes or distinct ways of investing, or will there always be separate lanes for them?

Michael Brandmeyer 56:03

I think you're right that they are coming together over time. As I said, a lot of the reasons for doing it on paper are really clear, and as you look at what's the impact of things, what's AI going to impact all of our jobs and our businesses, and I look at us structuring our data, building on analytics on top of our data. I mean, 75 engineers that work for me in terms of just what we're doing. Obviously, there are many, many more across Goldman Sachs. And so that's going to be a big advantage for the people that have scale and have data. That's got to be another factor that is going to be collapsing some of this. I mean, how can you not look at your risk budget across public and private when you have tools that are so much more sophisticated? And so, I think we're all very fortunate because what we're going to do is going to get more complex. It's going to get more interesting. We're going to have more tools at our disposal. And at some level, I think that does force some of these distinctions to start reducing. How it actually gets managed, how you allocate to managers, all these types of things may not change quite as much. But at the portfolio level, I think you have to think about these things much more integrated.

Romaine Bostick 57:18

Mike, Nabeel, Rohit, Shikha, David, a pleasure. Let's give a round of applause here to our panelists. Thank you so much.

Announcer 57:38

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