



THE ASIA-PACIFIC OUTLOOK: FINDING VALUE IN VOLATILITY

Manisha Tank 00:01

Okay. Hello everyone. Good morning. The clock is already ticking, so if you haven't yet taken your seats, please do and wrap up those conversations because we want to get cracking here. All right. So you've seen the brief. You know what it is we're going to talk about. What I will tell you we will not talk about is too much current news. What we want to do is look beyond the headlines, and we want to look down the line, and we want to see how we invest beyond everything that you see in your headlines every single morning. So we have a great panel with us. Just going down the line, we have David Elia here with me, CEO of Hostplus, and then next to him is Seema, chief global strategist, Principal Asset Management. We have Gabriel Lim, executive director and CEO at Seviora Holdings, and at the end there, Eiji Ueda, who is partner and head of Asia Pacific at Apollo Global Management. And I'm going to start actually down at the end of the line with you, Eiji. Because, look, Apollo Global Management is in the headlines today. I know I'm not going to ask you for details about that story. Anybody here who knows, knows. But I think beyond that, I think it represents something very important that we have to talk about, which is artificial intelligence and how there is a major, what some people call the fourth industrial revolution happening, and this means structural change, and that means things get disrupted in the near term, and we have to think about what the long term is going to look like. And you are very much in the thick of that. So first of all, let's start with your view on that longer-term picture and what it looks like.

Eiji Ueda 01:41

Yeah. Thanks for having me today. And Apollo is a center of finance, all the industrial renaissance or revolutions, a lot of changes happening in the marketplace, and AI is part of it. Obviously, for short run to build all the AI ecosystem, the demand for data center and support the computation is growing very fast. So you saw a lot of report where these hyperscalers need their finance needs, and Apollo is center of that. If I look at the data center build these days, a lot of the value is coming from chips. And also energy and power plant is a very important part of it. But I want to mention about a chip finance. This is a new innovation, and we really support the finance, the chips, and the Broadcom deal we announced in last June is a very interesting one. But long story short, we want to be creative to support these finance and that CapEx needs is growing very fast. With the amount of our trillion-dollar AUM, which Apollo manage these days, to support these growth and finance into these data centers to support the real economic growth. I think AI is very important to improve the productivity of all the companies in the future, and we have a long-term view of this AI is going to disrupt the industry and the productivity improvement significantly in the future.

Manisha Tank 03:33

Okay, thank you for that, Eiji. And so with that, let's zero in on Asia. Seema, I want to pick this up with you because there is a very much an Asia investment story here. You only have to look at the market performance of, let's say, the KOSPI or the TAIEX to just see the symbolism of how important this is for Asia, particularly when we talk about structural change and we talk about AI. But it's interesting because, Eiji, you used the word creative, and when you're looking at value amid volatility and structural change, what are some of the keywords that you would focus on and how would you describe Asia's position? Because you spend a lot of time in the UK and in the US, and you're looking at it from the outside.

Seema Shah 04:14

Yeah. Thank you very much. Good to be with everyone here. So I guess as a starting point, I'm based in London, but I'm jumping between the UK and the US, so I'm definitely coming about this from a global allocator perspective. I think the key difference that we're seeing compared to previous years is that before we would look at Asia as a diversification play, but increasingly you're seeing it as a creation of value. Inevitably, everywhere you are, you talk about the global CapEx cycle. That is inevitable. And it used to be something centered in the US, I guess it is to some extent, but you now have this global ecosystem, and actually Asia sits really at the heart of that. So if you believe in AI, if you believe that it still has value to be done, that it isn't overvalued, and that there's a lot of risk growing, which inevitably there's going to be room there to believe that. But certainly, if you believe in the AI trade, increasingly from the US and Europe, having exposure to Asia as a region, not just in terms of the chip makers, but actually in terms of the full build-out, whether that's data centers, whether that's cooling systems, there is such a significant ecosystem which is built around it within Asia as well. So I think from a global investor perspective, that has been key.

Manisha Tank 05:30

Okay. And with that, I've already used the words around structural change. Structural change brings a lot of disruption. But with that, David, let me focus on what Hostplus is doing, because in order to look after— you've got a vast amount of sort of sums under assets under management, but you've got to really look beyond all of this disruption. What do you see? What is your timeline and what do you see?

David Elia 05:59

Yeah. Good morning, everyone. So it's \$165 billion. I think when we're back here in 12 months' time, it'll probably be \$200 odd billion, given the nature and structure of the Australian pension system, which is effectively underpinned by compulsory superannuation. So employees are receiving 12 percent of their salary year in, year out, and that is directed towards pension funds such as Hostplus. In our case, we've got two million odd members, so 14, 15 percent of the Australian working population. The position that Hostplus holds is that we are genuinely long-term investors. And I know that word gets thrown around a lot. But what does it actually mean? So the advantage of being a long-term investor such as Hostplus is that we don't have to pick market cycles. That's not what we do, right? And we're probably never going to get it right anyway. But what we're constantly looking at is exploring real structural themes, genuine thematics that are actually playing out in the world today. So what are they? So, we've touched on the AI, digitization, transformation that's occurring, energy electrification is another one. We're seeing the re-globalization of supply chains. It's not the end of globalization, but we're seeing a diversification of globalization around supply chains. And then we're seeing demographic change and the rise of the Australian consumer. So, our job as long-term investors is to basically look at these types of thematics and

determine a particular view as to whether or not the underlying opportunities within those key thematic—because you've still got to do the work, you've still got to do the appropriate underwriting. You've got to be very disciplined in terms of ensuring that you're still buying at the right price, because you can actually have a very strong thematic, but still make poor investment decisions along those lines. So from our perspective, that's generally the way we've gone about allocating our capital.

Manisha Tank 08:09

And then, so then the question becomes: where are you finding the value in times like this? Because it does sort of feel on the face of it, very volatile. And the question is always, you're going to have to guarantee these outcomes down the line and you've got to be creative, look for the values. Seema, you'd also reflected that. How do you do it?

David Elia 08:30

Yeah. So again, if we look at, maybe we take the example of AI and the whole concept around digitization. So, our job is not to try and pick who's going to win the AI race, but we know that there is a significant level of investment being made into that particular sector. So, I like to use the analogy of the gold miners. So we don't necessarily have to go and find the gold, but there's money to be made in the picks and shovels, in the ecosystem that ultimately will drive that level of investment. So again, I mean, you weighed or touched on it, so it's the data centers, it's the semiconductors, it's the energy, it's the electrification that is a really important conduit in terms of fulfilling those types of investments. How do we do it? We partner with really smart, aligned investment firms such as Apollo, which is a key partner of Hostplus. And we're no longer just an allocator of capital per se. So we sit down with an Apollo or trusted investment manager and it's like, how can we genuinely build a business together? And what we bring to the table is obviously patient capital, a disciplined investment approach that really realizes the underlying value of these opportunities.

Manisha Tank 09:46

Okay, Gabriel, let's pick up the conversation with you now. So, Sevia has quite a unique perspective vis-à-vis this panel. We've seen a lot of diversification in investment strategy. You are very focused on private markets. What are you seeing and how are you trading through the short term into the longer term?

Gabriel Lim 10:06

Yeah, thanks, Manisha. By way of introduction, Sevia is the primary asset management platform or subsidiary of Temasek. We manage about \$76 billion right now across both public and private markets. Maybe just to answer your question by referring to your earlier one, which is the longer-term structural trends. Actually, we think we see Asia being at the intersection of many of these trends. One is essentially the bifurcation or the reorganization of global trade flows and geopolitics. I think if you think about Asia's growth trajectory since the end of the World War, or Second World War, it's very much been really as a cheap outsourcing location of manufacturing first and then some services later on, really for the West. Obviously, that's changing. And in that, we are starting to see a lot more regionalization, more onshoring, as part of a broader, I think, global zeitgeist towards nationalistic policies. Second is technology. We talk a lot about AI, but if you think about the AI stack, aside from the US, a lot of the value creation is actually being done in Asia. Chips in Taiwan, memory in Korea, and now increasingly also starting to see full-stack AI solutions coming out of China, open weight, open source, all the way to physical AI, robots and so on and so forth. The last one we haven't quite mentioned yet is really climate change. I think we are feeling that now. You've seen the situation in Bangkok. We've also heard some of the concerns from low-lying Asian capitals

like Indonesia and Jakarta. This is real because we are right at the epicenter of some of these things. I say all this because, to David's point, the structural trends are there. Right? But because Asia is such a diverse, heterogeneous region, the way it impacts different countries is actually very different. How the opportunities we're seeing in Japan is incredibly exciting, but also, opportunities we're seeing in Indonesia, in Malaysia, are also exciting but in different ways. And to your question, ultimately for us, actually that is entirely the volatility, the unpredictability, the change, which is where we're actually seeing alpha. And we're investing against that. We have, as I mentioned, a direct business. Let's talk about private credit strategies, for example, which has actually been delivering strong returns, mostly in Southeast Asia, because we've been able to originate better through disruptions as capital flows are changing, as investments are changing. We've been able to structure also better because of the, as corporate governance arrangements as the legal policies and frameworks are changing, we've been able to structure better. And arising from that, by being able to embed our local knowledge into investable products, we've been able, I think, to deliver stronger performance to our clients and our investors. So I think it's precisely the volatility that actually offers us the potential for alpha.

Manisha Tank 12:52

Right. Okay. Can I just extend on what you said a little bit? Because we've talked about AI and I kind of set the agenda when we did start talking about it. But the risk there that comes up a lot is you can't, an old British phrase, you can't put all your eggs in one basket, right? We have sophisticated products available today. And you talked about, off-air, you talked to me about also, the interest in alts as well. Technology has also enabled us to take a completely different approach. How are you being creative at Sevia when you look at the investment outlook for Asia?

Gabriel Lim 13:33

I think a few things. On the public market side, it's about using, adopting AI to help us synthesize intelligence better, and the data sets is absolutely quite important there, and also how to trade better, be smarter traders. But on the private side, I think it's really to help us to understand how to, and certainly in our practice, how to structure, how to underwrite better. In particular for us, just for full disclosure, we don't have direct exposure to a lot of the AI stack right now, but we do have an indirect exposure because a lot of the companies that, for example, we lend into or we buy into, will invariably be affected by AI, right? And so how we think about the future business model, how we think about the returns we're underwriting, the operating model we underwrite in the next five years or the next seven years, is something that we look at very carefully, and this is something that, I would just say that it is a constant work in progress.

Manisha Tank 14:25

Okay. We're going to shift tack a little bit now. I want to talk about sort of some broader themes. So, Eiji, let me bring it to you because you at one stage managed Japan's government pension fund, the largest in the world. You're based in Tokyo. You're very aware of some of the big issues. Something that Asia has to face is that replacement rates in population are falling, and Japan, we know, is dealing with this aging population problem. Let's couple that with, again, artificial intelligence and the prediction that it will replace labor. So there was actually a very interesting leader in the *Asia-Pacific Economist* this week, and it was leaning into this thought that we need to have around if there are fewer people employed, who's going to pay that income tax? Where does the tax burden fall? Just walk us through that and where it fits into the investment outlook profile.

Eiji Ueda 15:21

So, Japan is in a unique position because the society matured earliest, and the population started to declining and aging earlier than any other countries in Asia. That put the country face the various challenges. One challenge is, as you mentioned, pension fund is pay-as-you-go, which I used to manage, which are \$2 trillion funds. But declining population, pay-as-you-go system is very challenging. And government has been issuing a lot of debt, and debt GDP is 210 percent, which is probably twice as much as Greece. Interest rate is going up, facing the deflation for very long time and went up to 3 percent now. So government debt refinance perspective, that's quite a big challenge. Because of deflation for a long time, the financial ecosystem never been really developed like US, so very small corporate bond markets and majority of the fixed income market is government bonds. Having all said that, I think the best solution is to make the economy grow faster. That solve the issue for tax revenue, government debt, pension funds, and all the other issues the country face. But it's very difficult because now population is declining about half percent per annum. 10 years from now, it's going to accelerate about 1 percent per annum. GDP is simply number of people times productivity, so the country needs to have huge improvement of productivity to maintain the higher growth of GDP in the future. So that is quite a big theme related to AI, because AI integrated to various industry, people's work, and businesses really create the productivity gain, which is the key for that country to grow and can solve all the problem we face there. Having said that, declining population, obviously, income tax from the people will be challenging, and need to be covered by corporate tax, which has to grow with the better productivity and the better equity markets to grow. But we need the credit finance market to support all these growths because, historically, bank deposit was the biggest pool of capital. 80 percent of the corporate finance has been done by bank loans, which is only 30 percent in US. So, with the inflation become 3 percent and now deposit growth stopped because the yield is much lower than inflation, it's money losing investment now. We believe that demand for higher corporate finance with the not growing deposit market potentially will create private credit markets in the country where we want to support these productivity changes, in the country to support the entire economical ecosystem. So Apollo is really focused on Japan because potentially the huge private credit market to be generated in the near-term future.

Manisha Tank 19:20

Okay. I want to bring it to you, Seema, because with your perspective sitting in the West, so to speak, when you hear this and having already said on this panel about the opportunity here in Asia, and how you've referred to—you said to me off-air that Asia's becoming this increasingly important source of capital innovation, diversification for global portfolios, but it faces some really difficult challenges. Do your expectations hold up when you hear about some of the challenges and the way that they are described?

Seema Shah 19:59

Yeah, it is interesting. It's worth saying Japan is facing it sooner than a lot of the other nations, but this is a global story. Unless you're sitting in Africa, where you've got an increasing population, this is something which is going to be facing Europe, it's facing the US, and for their country, that's really going to be about what their immigration stance is going to be. But overall, when we're looking at Asia, as you said, I think one of the meaningful changes that we're seeing is that before we would think about where are we going to allocate flows, but increasingly, this is a source of flows, right? The retirement, we talk about the demographics, the need for retirement planning is here. The wealth creation, of course. Even within aging, the requirement for health-care infrastructure. So inevitably, we always talk about AI, but there are other segments within Asia, other structural trends which are really worth, from a value perspective, trying to get a *[inaudible]* into. Health care, we've got the industrial cycle, certainly, which is bigger than AI. In fact, if you're looking across, sitting from the US and Europe, one of the interesting things has been is that when you come to Asia, the assumption has been when you're coming in that it's really about the AI investment cycle, but there's actually a super investment cycle coming. The infrastructure build-out that is required

over here as well as in the globe is not just around the AI build-out, but it's also about the transportation dealing with the demographics. So to me, that's actually where the lot of the private capital can go. You can either be a beneficiary, so you can either buy into the beneficiaries of AI, or you could be one of the ones that can finance that build-out, both on the AI infrastructure build-out and the broader infrastructure build-out. So I think that's one of the areas where you can see the structural trends really, sitting right at the center of where you get the opportunities at, too.

Manisha Tank 21:47

Okay. Would you agree with that, David?

David Elia 21:50

Yeah, I'm always fascinated by this whole debate about demographics because everyone initially seems to focus on the revenue line, but there's got to be some consequential savings. So the reality is changing demographics will ultimately mean that there are expenditures that would otherwise be directed. I'm thinking sort of like schools, education, and then you overlay that with the AI revolution, however way that is going to play out. I'm not so pessimistic about poor demographics, per se. And I think then governments have got levers. They may not be actioning them today, but they will. They'll be forced to. On the revenue side, my CIO often likes to tell me that there will come a point where we'll be taxing the robots. So, governments are very creative in finding ways to effectively create more revenue streams for themselves. So don't discount that for one moment. I think what's also important is really just the pools of capital that, Japan is certainly one, Australia another. The pension pool now is just under \$5 trillion. So what does that mean in the context of an aging population in Australia? It basically means today, the Australian government public pension payments represent about 2.6 percent, right, of government expenditures. That is going to decline. So that is going to create more capacity for governments to effectively allocate that money elsewhere. By the same token, you're also excited by the prospect around positive demographics. And I hear people talk about Asia as an investment thesis. Well, Asia's got a whole bunch of countries, and every single country is fundamentally different. Different demographics, different, shall we say, levels of maturity, whether it's governance, whether it's infrastructure build-out. So I don't think it's like a binary conversation. Do we invest in Asia? Don't we invest in Asia? I think you need to basically have a look at the underpinnings of the opportunities that exist in each country. And the concept around the underwrite, you want to basically understand the risks, and then you want to make sure that whatever investment you are making, you are being appropriately rewarded for the risk that you're taking in that regard.

Manisha Tank 24:17

Okay. Yes, go ahead, Seema.

Seema Shah 24:19

I think you raised some really interesting points there about the differences within Asia. Just the one thing, though, the government can step in, and I think Australia is obviously almost a poster child for the pension system. In the UK, we spend, on the government side, ages just trying to think about how we can recreate the Australian system. But I think one of the issues you have is that as we look out over the coming decades and so, and how do we increase that revenue that will be required to pay out these pensions? You can increase corporate taxes, you can increase taxes all around, but you don't want to be the first mover. No country in the world wants to be the first mover in raising corporate tax. You want to be the first mover in terms of cutting your corporate tax. And so for a country like Japan, absolutely, that is something that we do need to take account of. But the second point I wanted

to make was the divergence that exists within Asia is absolutely key. And actually, if you're in Asia and you want to have diversification, there's one really interesting story, which is just looking at Japan versus China with inflation versus deflation. In Japan, to me, that suggests banking system has performed incredibly well. There's a steep yield curve. It's one of, actually, the few countries, few economies recently that's had a steepening yield curve. And then on the other side, you've got China potential deflation, and that's where actually Chinese local bonds become really interesting investment stories. So there, I think that it's key. It's not just Asia as one. There are lots of interesting dynamics within the economies which create a lot of opportunities.

Manisha Tank 25:53

Which actually brings us back. I know you have a brief comment, and then I'm going to take it to Gabriel, because Gabriel, you were pointing to this earlier. But yes, David, go ahead.

David Elia 26:01

I was just going to make the point that it's important to understand the structure of the Australian pension system. So it's defined accumulation, so it's not defined benefits. So the underlying risks are borne by the individual members. That's a really, really important proposition. Unlike many other countries, like in the United States, DB systems, whether it's government-based pension funds where the government's effectively needing to find the money longer term. The US is going through a pivotal— there will be a pivotal moment for the United States in regard to its ability to continue to fund and service its pension payments. But the underlying risk is taken by the individual members. So, I just wanted to make that point.

Manisha Tank 26:44

Okay. Gabriel, I saw you nodding along as you were listening to some of the conversation. We started this section of the conversation with the challenge of aging populations, which is hitting Asia in quite a big way, and it's really interesting to get all of your perspectives. But earlier you talked about climate, and I wanted to go a bit deeper down there because there is a big conversation around the opportunities that will come from what some would say, on the one hand, it's a very depressing existential crisis, but on the other hand, there is something we can do. There are things we can do about it, and that does present opportunities when you're looking at the investment outlook. Just speak to that if you could. And what are some of the conversations that you're having behind the scenes?

Gabriel Lim 27:29

Well, I think this is definitely something that may not be so front and center compared to 10 years ago, but certainly the conversations are taking place a little bit more discreetly. I think in Asia, we have seen, actually not just Asia, but many other countries, we have really seen the impact of climate change in a very big way. And I would say, the events of the last few months, especially summers in Europe, for example, right now. Even right now in Singapore with the haze, you can always trace it back to a certain climate issue. I think for Asia right now, the question really is, are we still able to deal with climate mitigation? Or actually, are we full on into climate adaptation? But I think there are opportunities with regards to infrastructure around clean energy transition, around renewables, around what's happening actually, in the region, solar farms, hydro, and so on and so forth. These are live conversations that are taking place. And in fact, for many of us, we are working very closely with global GPs to see how we can put together funding structures, investment vehicles, to be able to take full advantage of these things in a way that delivers good returns to our investors, which is being done, but more importantly, also actually contributes back to humanity and the human civilizations that are negatively impacted by

the full effect of climate change. So it is a real issue, like I said, not as public or not as high profile as it was, say, 10 years ago with the signing of the Paris Accord, but it's definitely taking place, and I believe it'll continue to do so in the future.

Manisha Tank 28:50

There has been a lot of commentary around America's position on this, and the fact that one of the reasons there isn't as much money on the table is because America has taken a turn in the way it is approaching this conversation. Are you seeing that that's having ramifications for Asia or not?

Gabriel Lim 29:09

I mean, look, at the end of the day, every country has to decide for itself, right? So obviously we understand what's taking place in America, and we have to respect their decision. But there are also other examples. If you look at China, for example, what they've done in China over the last 10, 15 years has been nothing short of remarkable. If you look at it, I don't know the exact numbers, but today I think about half the grid is powered by renewables. More than half of every incremental megawatt that goes into the grid is from renewables. And consequently, that's changed the strategic game. If you look at the impact of the Iran war and how global energy shocks are percolating across the world, it's not hitting China the same way as it would have happened 20 years ago, and because I think structurally they've actually reduced their dependence on fossil fuels to some extent. So I say this because I think there are positive examples where a real commitment, conviction, and determined execution has paid dividends and actually has become almost an exportable industry as well, by the way, but we'll leave that aside for the time being. So I think bottom line is your question, every country will have to make its own decisions. It's important to have to really work through what it means and not just, what do you call that, value signal. You have to really work through what it means for your consumers and how you're going to help them transition to a cleaner environment, including the cost involved on a day-to-day basis. But it's something that we've seen positive examples for in our region. On Singapore side, fully committed to this. We've made very public our schedule of carbon taxes to come, but we've also been very thorough in creating climate adaptation support to our domestic population for doing this. And we're also very determined. We've announced \$100 billion in funding for climate adaptation infrastructure, including coastal defense and so on and so forth. So I think there are good examples, and I think every country will have to find its own way on this.

Manisha Tank 30:56

Yeah, it's definitely a story in its own right. Now, you've made me think of something, and I want to get a comment from all of you on this. I'm going to start at the end. Eiji, part of the premise of this whole panel is around value in volatility. But how would you define value? What does value mean today? And does it mean the same as what it meant yesterday?

Eiji Ueda 31:20

So, we think the value from Apollo adding to the society is really bridging between demanding and much more the corporate finance needs, bridge to the investors' needs, who is aging fast, as we discussed. And historically, a lot of access to the public equity market, which is 20 percent volatility product, or bank product, which is mainly deposit, which is zero volatility but relatively low return. I think there should be the markets and product to support both corporate finance needs and the investors' demand to invest in guaranteed return products is there. We want to focus more for that market, and we have done a very large scale of business in US through the Athene, which is

the insurance company we have. But we think applicable to Asia markets, and because the demand for investor investing in safe yield assets is growing with the society's aging.

Manisha Tank 32:38

Yeah. Okay. Safe yield assets. I think that's music to some ears, actually, in these times. Gabriel, value. What does value mean in your context, and where will we find it?

Gabriel Lim 32:52

As an asset manager, we obviously have to deliver the returns we promise to our pieces, so that's very clear. But I think two things. One, the financial returns on a risk-adjusted basis, I think it's our ability to be able to structure different types of investment products for different clients. But I think today value, to be honest with you, is also in some of the qualitative aspects, including trust. If we're going into a volatile environment, and we're actually, frankly speaking, a lot of things are uncertain. Even everything we talk about AI, frankly speaking, no one really knows. No one really knows. But if we're going into an uncertain environment, if you're going into an unpredictable future, who do you want to go into it with? Knowing full well that there's this wide cone of uncertainty. And I think trust, reliability, a certain sense of consistency, and a track record, which by the way, is something that we in Sevia, but also broadly Temasek in Singapore pride ourselves on, I think matters a lot, too. It's not going to be featured in your IRRs or your DPIs, but certainly it must factor into how investors think or partners think about, "Okay, who do I want to go into the unknown with?" And I think I would say, I'll add trust to that mix, in addition to what Ueda-san talks about, safe yield or risk-adjusted good returns.

Manisha Tank 34:08

Okay. Seema, same question.

Seema Shah 34:10

I love that answer. I wish I'd gone before you. I think to put, I guess, a slightly different spin on it, I think for us it's about trying to detect where are the structural trends and where do they happen to intertwine with some of the more strategic interests in the region from government side. So from that regard, our Principal Asia team is focused very much on the real estate side and really on the private market. So where are the funds going to come from and the opportunity set which is being provided by getting into the pool of capital and trying to allocate it to places where the, as I said, the structural trends, the strategic interests are going to drive those returns.

Manisha Tank 34:50

Mm. Okay. Having heard all of that, David, how would you position yourself on this question?

David Elia 34:57

So, it's interesting when people talk about volatility, more often than not, it's something we should be scared of. But as a long-term, real patient allocator of capital, there's always tremendous opportunities that are largely thrown up when markets are effectively moving. The advantage of being a long-term investor is that when markets move, it doesn't necessarily mean that we have to. If the thematic remains strong, but price changes, and more often than not, price reduces, then it creates a buying opportunity for us in that context. So, value for us is

ultimately trying to identify interesting business opportunities, buying opportunities that support the underlying thematic that we're effectively invested in.

Manisha Tank 35:51

Okay. It was interesting because when Gabriel talked about trust, I felt like trust would be something that's really important to you.

David Elia 35:58

Hugely. Massively.

Manisha Tank 35:59

So then how is that defining, answering the question, so to speak?

David Elia 36:07

You are going to get market volatility, right? And you are going to get all these interesting cycles. But ostensibly, I don't think you should misunderstand the whole concept around patient capital as being a passive allocator of capital. So you still require your manager to be completely aligned. You expect the manager to execute on the underlying strategies. You expect very strong corporate governance to be maintained. But we can basically wear out some of the, what I would call, early stage elements of the volatility that would underpin market cycles. But ultimately, if the trend line is that the manager's underperforming or the asset is underperforming, then we will look to ultimately act. In terms of our return objectives, we're running diversified portfolios. So the flagship investment option here at Hostplus, which is the balanced option, it's fully diversified across all the asset classes, across the geographies, across sectors. We have a return objective, which is CPI plus four. CPI in Australia has been running at circa 3 percent over a 20, 30-year period. The funds return 9 percent over that period of time.

Manisha Tank 37:18

Okay.

David Elia 37:19

So that's 6 percentage points above the long-term inflation rate. That's net of fees, net of tax. It's real returns, so that's genuinely accretive to the members, and then you apply the compounding impact of all of that. That's really delivering real net outcomes for our members above the inflation rate, above our own investment objectives as well. That's how we measure value for our members.

Manisha Tank 37:43

Okay. We have just about seven minutes left. So what I want to do is, Ueda-san, we'll start with you. It's really to just have that little synopsis, which everybody can walk out with. And I want to make it beyond AI, because we talked a lot about AI at the beginning. Beyond AI, where would you say the opportunities are? And each of you gets about a minute and a half.

Eiji Ueda 38:09

Another very good, difficult question. But I think the, as I mentioned, the change of the productivity, improvement of the economic growth for all the countries is the key driver. And I think the opportunity is really grow together with the real economic growth, not only for Asia, but for the globe. I think that's the opportunity.

Manisha Tank 38:39

Okay, so a sort of a global upliftment.

Eiji Ueda 38:41

Yes. Yeah. Grow with the economy.

Manisha Tank 38:44

Okay. All right, Gabriel.

Gabriel Lim 38:46

I think there's so many opportunities besides AI, to be honest.

Manisha Tank 38:48

You can reel them off.

Gabriel Lim 38:51

No, no. I just feel that, obviously, rightly so, AI is a generational technology. It's a revolution, but it's also sucked up a lot of oxygen in the room, if you know what I mean. But around that, we talked about this, health care, elderly services in aging societies, robotics, and the process of an industrial revolution X, basically, right? Powered by AI, no doubt, but fundamentally about a very different way of manufacturing, very different way of organizing our supply chains. Pharmaceuticals and what AI offers and so on and so forth. So, we see lots of opportunities that goes to the earlier point about the underlying structural thematics in each country, and we are, for ourselves, I'll tell you that we are quite excited about opportunities in Asia, in particularly Southeast Asia, which is our immediate neighborhood. To be clear, even within Southeast Asia, there's quite a lot of dispersion, so we have to be quite nuanced in our underwriting. But whether it's a family business looking at succession and what this means, whether it's about analog economies looking to use AI or technology to leapfrog and outcompete and redefine the business model to be able to outcompete the companies. Whether it's aging populations like Singapore thinking about how to use robots as social robots to help with health care, to help with education, and so on and so forth. Actually, there are many quite powerful themes, and I think the main thing for us is to really make sure that we are doubling down on our ability to understand the local markets, the local situations, to be able to underwrite, originate, and structure them intelligently in order to deliver the returns we promise to our investors.

Manisha Tank 40:30

Yeah. And what I'm hearing is we have more tools than ever to be able to do that, right? Seema.

Seema Shah 40:36

So I guess I've got three key themes that we're looking at. So one would be, we've talked about this at length, it's around detecting what are the structural trends in the region, whether that's demographics, corporate reforms, the shift from a deflation to a reflationary economy. Then there's the fact that Asia is now becoming the creation of capital rather than just where we can see global inflows coming in. So I think that there's a lot of opportunities within that, and there is certainly some overlap. And then my third one, I am going to break the rule because, as I said at the beginning, Asia is sitting at the heart of the global AI CapEx cycle. But it's also worth everyone recognizing that the global AI CapEx cycle, it's maturing, right? It's moved slightly, so whereas before it started off with the hyperscalers, then it transitioned over to the chip makers, the memory. Then there's also the build-out, all the infrastructure which goes behind that. And then the third round, which I think is to the point of, which is more than just AI is the beneficiaries. So when we're talking about things like health care, banking, financials, these all have all the potential to see productivity growth, better gains because of their adoption of AI. So I think that there's several angles within that AI narrative.

Manisha Tank 41:49

Okay. So, we have to admit, it integrates with everything to some extent, right? No wonder there's a major geostrategic conversation going on globally about it. The words are coming up on the screen.

David Elia 42:01

Yes.

Manisha Tank 42:02

Please wrap up, but you actually do get almost three minutes to do it.

David Elia 42:04

I get three minutes to do it. Well, okay. I come back to the notion that we'll invest in anything that makes us money, makes our members money. And—

Manisha Tank 42:12

Yeah. So then what's making you money?

David Elia 42:13

So, I know you want me to try and call out some specific areas, and I will do that. So we've touched on AI and the ecosystem that supports that, so the rallies that we continue to make allocations there. I don't underestimate the ongoing opportunities with regard to the energy transition. It is real. I know the comment was made about America, but every state in the United States is different. California is still forging ahead, New York, a lot of the democratic states. They're very much focused and creating the right policy settings that are very, very attractive to institutional investors such as ourselves. So the energy transition is one. The other one that I really do like, and we've started to make some serious allocations in this sphere, so if you believe the narrative around what AI will mean for all of us, which means we're all going to be out of a job, we're all going to be writing poetry, and we're all going to be involved in the arts, media, sports, entertainment. It's a \$3.2 trillion industry. It hasn't been institutionalized in the way that I think patient capital will do so. So I think there are some really interesting opportunities there. I think I'll make the point to you, the recent Paramount, Warner Bros. acquisition, we were

certainly involved in that. So, we've taken a piece of equity in that regard. The other area that really hasn't been touched on, I've been a little bit surprised, is the area of what I would call resilience and areas such as defense. Governments are spending all over the world, billions and billions of dollars in these sectors. Governments around the world are broke. They can't do it themselves. So they're going to rely on the private sector, and this notion around dual-based technologies. I'm not talking about building nuclear weapons and things like that, but I think there's a real active role for patient capital to support, I think, some of these broader industries. And it's all part of that earlier comment that I think we've all made around the onshoring of supply chains. So I think governments all over the world will look at reshoring some of these key supply chains, and I think that will create an enormous amount of opportunities for institutional investors.

Manisha Tank 44:41

And I think what's interesting about that, as we have almost 10 seconds on the clock, is of course, that much of the innovation in artificial intelligence that we've already talked about, it all started in defense, in the military. So it brings us full circle. Thank you very much for that. Please show your appreciation for our panel this morning.

[Applause]

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