



MULTI-ASSET INVESTING IN A FRAGMENTED WORLD

Avril Hong 00:01

All right. Good morning. Great to see everyone in the room today, especially the speakers joining me on this panel. So multi-asset investing in a fragmented world. We've seen amid the uncertainties, at some points in the year, stocks falling alongside bonds, really testing the assumptions that 60/40 helps to reduce portfolio volatility. At the same time, we've seen yields surging, especially on the long end. There's a need for active management. There's also maybe increasingly the vibe that you need to add alternatives, exposure to it, to capture returns. But that all comes with risks. So let's discuss. Shikha, let's start with you first. What does it mean in this day and age to build a resilient portfolio, and how relevant is 60/40 still?

Shikha Gupta 00:55

Thank you, everyone. Absolutely wonderful to be here today. For those who don't know, Future Fund is Australia's sovereign wealth fund, where we invest globally for the long term, for the benefit of future generations of Australians. I lead our alternatives part of our portfolio, which essentially is the part of the portfolio that relies less on equities and bonds for returns and is there to build resilience and flexibility. So your question is very apt. We are 20 years old actually this year, and we started our journey with a total portfolio approach. So we're very TPA native. Essentially, we've never subscribed to the idea that 60/40 is the best way of building a portfolio, and not because, at least in the world we were in pre-COVID, that wasn't a strategy that worked. But we just thought there was a better way of building a portfolio where you could possibly generate the returns that you want, but with slightly lower volatility or build more resilience into it. Now, fast-forward to the world we're in today, that's become even more important. The correlations between equities and bonds are, quite frankly, not stable anymore. In a world where it worked, in a world where inflation was falling, and it protected against a growth shock. But in today's world, where there's volatility coming at us from every angle, whether it's a supply-side shock, geopolitical shock, or inflation shock, you really need a portfolio that can withstand these multiple scenarios, and hence a portfolio that really is diversified, from an asset allocation perspective, makes a lot of sense.

Avril Hong 02:42

I wonder how you're viewing the surge in yields. Is this structural? Is this transitory? Can we point to even just one factor that is causing it? People can't seem to agree on what is prompting such a move.

Shikha Gupta 02:55

Look, we think it's at least partially structural. Not just because inflation is where it is today, and that could be higher right now and could come down in a few years once all the supply chains are built, etc., and oil prices are sorted. But it's actually because there's so much demand for capital at the moment. Governments are borrowing. There's a huge CapEx boom because of AI, because of energy transition, and so investors are demanding a higher return for their capital, where there's a lot of demand. So I think at least partially, it is structural and possibly here to stay for a lot longer.

Avril Hong 03:36

David, what do you think?

David Chua 03:38

Well, hi, good morning, and welcome to our overseas guests. I'm the CIO for Income Insurance. For those who are unaware, we are one of the largest composite insurer here. We invest globally, and as you can imagine, two-third of our investments are in fixed income. That's hurting a lot. But I do think that 2022 was probably a rehearsal of what we are seeing today. It never really went away. We saw a sharp rise in the interest rate environment. Things have changed. The plates are sort of moving around. But I think one thing that hasn't changed would be rate volatility. We believe that will still likely stay. I think the other interesting aspect, which is what Shikha mentioned about inflation feeding into that trajectory of interest rates. If you look at the five-year, five today, the breakeven inflation rate that the market is pricing, we're still at 2.35 percent. That's what I checked this morning. Which actually means that this is a risk that's in the background that's not been fully priced in. So, can it go even higher? I don't think we should be overly complacent to think that it would just stay here. There's always a chance that it can go higher. But at the same time, I also think that across globally, there will be divergences in terms of strategy, depending on the country's fiscal tolerance, monetary policy trajectory, and that's going to present a lot of opportunities for fixed-income investors.

Avril Hong 05:01

Actually, you raise a very interesting point because given the backdrop and some of these drivers to the bond market selling being unprecedented, I wonder, do the traditional gauges to help take a look at the bond market stress, do they still apply? Does it still work? What are you looking at?

David Chua 05:22

Well, I think the reality for many Asia-based insurance companies like ours, the capital market is still catching up in terms of the development, especially on the long-duration asset space. So there is a lot of investments that goes out into long rates investments, be it on the treasury side, be it on long-duration assets such as private equity and other risk assets. So I do think that the reality is there's still a need for us to continue to broaden and diversify. One of the things that often comes up today in this environment is the basis risk, because many investors have been looking at the past 20, 30 years, how rates have correlated. And back to my earlier point, it is going to diverge, and everybody has to be prepared for it.

Avril Hong 06:08

David Steinbach, let's bring you in here. I mean, given how you look at real estate returns look a bit challenged, fundraising also not easy these days. How attractive does real estate look?

David Steinbach 06:24

Yeah, sure. I'm the CIO at an organization called Hines, and we're a global real assets manager with about \$100 billion under management around the world, in about 30 countries. And strongly agree with some of the comments already made. I think we are in a super cycle of investment that's needed. It's for a lot of reasons. It's because of de-globalization. There's a lot of concern around just the re-industrialization of different economies. There's energy scarcity now, driven a lot by AI, but also just the electrification of everything. And these waves have been building for a number of years, and it's going to require a lot of capital to get a lot of things done around the world. And I think that private markets are going to be a really important part of that equation. And I think as investors are looking at returns, they're going to need to get a bit more creative in how they're coming at different opportunities because the playbook that we've had the last 40 years, I think is less relevant today, in the coming years. And so I think that kind of meta-narrative, if you will, is going to be top of mind for investors the next few years.

Avril Hong 07:34

What are we looking at in terms of returns across Asia? What looks most attractive to you? How does that compare to a market like the US?

David Steinbach 07:44

Well, every market— so we're active in the United States and the Americas more broadly, Europe, and then here in Asia. And every market has different elements that make it interesting for investors to come in, especially from the kind of real assets, real estate side. I'd say, though, Asia broadly for us, we do see it as a growth stock in many ways. Some of the going-in yields are a bit lower than we can get in the US, as example, but the growth profile is a bit stronger. So when you look at the total return, it absolutely favorably compares to—

Avril Hong 08:16

Specifically which Asian markets?

David Steinbach 08:18

Well, we're very focused right now in Tokyo, Australia, Singapore, Korea. Those are the big markets we're most focused on. Australia for us is repriced. Singapore—here, it's about scarcity. And in places like Tokyo, we're starting to see rent growth come through, which it's been a long time since we've seen that.

Avril Hong 08:37

Michael is nodding away because those are the gateway cities that he's been talking about as well. But given the yield backdrop, I wonder, does that pose a sort of risk for— perhaps Hong Kong property market recovery, does it derail some of it? How insulated is the top end of real estate?

Michael Smith 08:56

Thank you and good morning, everyone. I think in terms of our strategy in Hongkong Land, we bought our first piece of land in 1889, so 137 years young. But we focus really on owning the village square of the gateway cities. So in Hong Kong, we've got quite a large portfolio across Hong Kong Central. In Shanghai and West Bund, we have

a 33-hectare, 20-million square foot development underway. And then in Singapore, we've built up a \$10 billion portfolio of some of the better office properties around Marina Bay. In the context of those three markets, looking at total return is really the focus for us. So it's not just the yield piece, which is the piece that gets compared with fixed income, so that's the annual rent divided by the value of the property, but it's how you can grow that rent. And you can grow that rent in markets which have good supply-demand balances. In Hong Kong and Singapore right now, the office markets are very, very strong, and we're seeing a lot of good growth coming just out of the market. But you can also, given our history, you can reposition assets, you can add value to assets, and you can increase the income profile that way. You can improve operating performance. There's various ways, unlike just conventional fixed income. With commercial real estate, you can grow that yield and deliver a total return of yield plus growth. So in the markets that we operate in right now, Hong Kong has great growth. But Hong Kong, we enjoy the growth of China, but we pay US rates. So interest rates in Hong Kong are higher than the cap rate or the yield. So great growth, but we don't get a positive carry on the interest versus the cap rate. In Shanghai, borrowing rates are very, very low, but the office market there is quite stretched and it's quite tough, so we don't get the growth. The market that we really like at the moment is Singapore. Because in Singapore, we can buy assets at valuation at sort of 3 percent-type cap rates, but we can borrow at 2. So we get a positive carry between the yield and the cost of debt, and we're getting really, really good growth because there just really isn't supply available, land supply available for really high-quality office stock across Singapore. So that mix of having positive carry and growth really provides, in our minds, this is the market that we want to continue focusing on. We created our first fund here this year. It's an \$8.2 billion fund. We made our first acquisition of the building next door, Wheelock Place. We've got great LPs alongside us, APG, QIA. And these are investors who believe like us in the scarcity of these sort of village squares. So they're in it for the total return and for the long run. They're not in it just for the yield, so they're less influenced by what's happening in bull markets and things.

Avril Hong 11:20

David, you're a big believer in Singapore.

David Chua 11:24

Yeah.

Avril Hong 11:24

What are you seeing in the way of returns here in terms of real estate? Do you agree with what Michael has said?

David Chua 11:29

Yes. I'm obviously biased. Yes. I think even more so because, as an insurance company here, our liabilities are largely denominated in Singapore dollars. Which means that from an asset liability perspective, it totally makes sense to invest into Sing dollars. But the problem is, we got many other investors who also like Singapore. I do think that the role for Singapore as a financial hub is clearly important in this very fragmented world that we live in. The traditional risky assets that we're all used to, I think the broadening of more safe havens for global investors like ourselves clearly is a positive. I think to answer your question directly, if you talk about a 20-year Singapore bond, we're yielding at 2.5 percent. That's not going to help us to deliver our returns to our constituents. And as such, I think one of the key concern that we have today is around when we then invest overseas, netting off the cost of hedging, which is pretty high today, as well as the projected returns, while a 8, 9, 7 percent looks great, in US dollar terms, it may not help me to achieve the returns for my constituents. So I think as a result of that, we are also consciously thinking about how do we better diversify the portfolio outside of Singapore. We're also looking

at opportunity sets across, I think back to the point of what David and Michael have said, not just on real estate equity, but also on the real estate debt side. Because clearly, we shouldn't be bounded by where we play in the capital stack, and I think this is a great time to be a lender, especially in this heightened rates environment.

Avril Hong 13:03

So with that in mind, I know you invest via TPA, but if you were to build a portfolio and give us a sort of ratio, what is it supposed to look like, especially when you have alternatives, including private markets, in the mix?

David Chua 13:20

That's a great question. I would say we are not as unconstrained to apply a TPA like maybe Shikha's shop, simply because we are still governed by the risk regime within the insurance environment. So by and large, I don't see a big shift away from fixed income. That's still going to be needed for asset liability matching purposes. But the remaining one third, I think, is where we are spending a lot of time and effort looking into it. Should it be just all equities? Should it be just majority, 70 percent US equities? I think those are the questions that we're asking ourselves as we think about how do we broaden and diversify more broadly to achieve a more resilient portfolio from our perspective over the next five, 10 years.

Avril Hong 14:02

What are the risks that you're seeing out there in the private markets these days?

David Chua 14:07

Increasingly, I think we are seeing pockets where there's a lot of capital chasing a very limited opportunity set. And you can take a pick on a lot of the news flow that I'm sure many of you are cognizant of. But I think it all boils down to one trend that we're seeing, which is there is increasing a broadening of the investor base. What was traditionally more esoteric and institutional-light, you're seeing a lot more other participation, such as retail investors coming in. And I think with that, it also means that the market structure is changing, and that's something that we just need to be very cognizant about. When you do need the money, how are you going to make sure that you have sufficient liquidity to provide for those cash flows.

Avril Hong 14:53

Shikha, what about you? How are you viewing private credit in particular, where we've seen recent examples in Australia, specifically quite spectacular blowups, people talking about it like a house of cards. How interested are you in that asset class?

Shikha Gupta 15:10

There's a really favorite headline in Australian newspapers. They call it the cockroaches or, I think Jamie Dimon brought it, and my colleague who heads up credit said he knows everything about insects now, thanks to all the coverage. I think we think private credit is really important as a class. It structurally plays a really important role. It tends to be shorter duration than some of the property investments or private equity investments. There's a real role as banks are retracing and corporates need, good corporates need credit, or even good property investments need credit. I think it really boils down to the fundamentals. Is the underwriting strong? Is the documentation right? Are you actually getting the right spread, not necessarily yield for the risk that you're taking? And that's what

we're really focused on. I do— my personal view is some of the headlines are sensationalized and there are pockets of trouble. But it's probably not as widespread as perhaps the popular media would like to portray.

Avril Hong 16:10

David Steinbach, when you look at a market like Australia as a global investor, obviously this is a market that is seeing property very closely tied to private credit. What are the risks you see there? Are you still quite constructive on a market like Australia?

David Steinbach 16:27

Yeah, we haven't— we have been active in private credit, actually, in the US market. We focused first on that. I think that we will be doing more, in Asia. We don't currently have a private credit offering in Australia. I do think I agree, though, fully with what was just said, that I think it is a very important part of enabling the market to do what it needs to do. It's providing more options for people, and I think that is a good thing. I also agree that while right now, just where rates have gone, I think a lot of investors have ticked down on the risk curve a little bit. So they're a bit more focused on credit and income, just income-oriented investments versus the higher risk of opportunity funds and maybe even development. That's the sentiment, and so I think we're going to see more money go into private credit in the next 12 months. I do think that investors need to be careful as they balance their portfolio, though, because the point you just made is exactly right, that you have to think about duration. I mean, you're going to get the money back after equity has recovered. And so if you put all of your chips in the credit basket—which is a good basket to put in, but if they're all in that one basket, you're going to get the money back after equity has improved quite a bit. And so then you're now buying into a different market setting where you've missed a real opportunity on the equity side. So I think investors need to keep a balance in how they allocate capital. And, I think in the end, that's the strategy that wins.

Avril Hong 17:52

And the importance also when you look at the markets in Australia, broadly speaking as well, I wonder what you see in the way of potential returns, in places such as Japan, and how much further runway do you think there is in a market that's looking quite hot?

David Steinbach 18:14

Yeah, both markets are— again, the great thing about real assets, the great thing about real estate is, you've got some macro factors that obviously drive a lot, but it's at the end of the day, it's a local business. And you have to think about things on the ground in particular cities. And so you can really play the market in different ways. Tokyo and Sydney are in very different spots in the market, and there's some real interesting opportunities in both. But the way you play both is a little bit different, which is why you really need to have experts on the ground in both locations to be able to navigate what is a good opportunity, who are the winners and losers? Because the winners, I think, are going to win strongly in both markets. But not everyone's going to necessarily have that same outcome.

Avril Hong 18:59

Do you think Japan as a market is becoming a bit too hot? You look at commercial prices, they're at multi-decade highs. I think at some point earlier this year, in terms of investment flows, it hit one trillion yen, about \$6 billion, which is the highest we've seen it since 2008. Do you think there's more upside?

David Steinbach 19:19

Yeah, I think Japan and specifically most investors are mostly focused on Tokyo, although there is opportunities in broader Japan as well. I do think that we're starting to see rent growth come through, is an interesting dynamic. And so we've been most focused on the living sector, actually, and some logistics. And it's interesting that buying a building with some vacancy in many ways has more value right now than expecting to get the rent growth you're going to see come through. So those dynamics are shifting. I think Japan, Tokyo, I think is a very liquid, solid market, and I think that there are great opportunities right now there.

Avril Hong 19:56

Michael, great opportunities in Japan?

Michael Smith 19:59

Yeah, our strategy is gateway cities, and I think the index of finance centers New York first, then London, then it's Hong Kong, Singapore, Shanghai. So we're quite well covered in terms of our focus on gateway cities. But the next three in the world is then Tokyo, Seoul, and Shenzhen, I think. So we'd love to have an opportunity to go into those markets, but they're very difficult from a real estate perspective, particularly in the way that we want to go in, which is sort of a Marina Bay strategy or a Hong Kong Central strategy. In a place like Tokyo with Mitsui, Mitsubishi, Mori, they don't really need our capital expertise, and they own the sort of crown jewels of Tokyo. So for our strategy, they're just very difficult markets to access. Sydney, I mentioned this figure, but in Sydney, everything's available for sale. Everything is institutionally owned. It's not owned by families. In Asia, there's a lot of real estate, particularly very high-quality commercial real estate, that there just is no price for it because a family wants to hand it down from generation to generation. Whereas in a place like Sydney, it's all owned by institutions, public REITs, or private equity. And at a price, you can buy things, like the US, right? But in Asia, there are certain markets like Tokyo, no matter how much we offer to Mitsui to buy anything, they just— things are not for sale. So, accessibility in Sydney, opportunity is less for us in a place like Tokyo just because access is weaker.

Avril Hong 21:16

To the point about hot property markets, I wonder if you guys could just weigh in as well. When you zoom out and take a look at private markets, to some extent, are investors underestimating the risk of how crowded alternatives private markets can be getting?

Shikha Gupta 21:36

I think so. I think there's a lot of money that's gone into private markets, and some of it is actually because of the smooth return profile, which obviously masks the underlying risks. But there's also the fact that whilst you think private markets are very diversifying, but if you're doing growth infrastructure, private equity, private credit, but they're all funding the same underlying asset, it's actually all very correlated, not necessarily diversifying the total portfolio. So, I think as a long-term institutional investor, we have to really think about what is the entry price you're getting for these long-term assets, and what is their overall total return profile, and what is it adding as a risk exposure to your portfolio, and do you really want that? So I think in general, we've been leaning into, your earlier question around resilience. We are really leaning into alpha as a source of resilience in our portfolio, which naturally leads its way into private markets. But we've been very deliberate into how and where we are deploying that capital because there are certain pockets which I feel are definitely over-committed right now.

David Chua 22:49

If I can supplement what Shikha said, I think one of the common opportunity set that's been coming to us and what we are hearing in the market is also around data centers. There's obviously a huge opportunity set there. Everyone sees the need for it. But I think we also consciously, I think to the point that Shikha was saying, around the multiple exposure to AI across equities, across fixed income, across private equity, across infrastructure and so on. So I think that's something that we are also thinking about. How do you best play that theme beyond just investing or lending to data centers? Because I do feel that there are other supporting sectors, such as power, transmission, grids, and so on, where the opportunity set is a lot wider. And the part that concerns me is around the amount of money that's simply chasing a very narrow investment opportunity within the private sector.

Avril Hong 23:42

Wider opportunity set, but also the risks along with it. If the AI trade turns, does that not also drag some of these other infrastructure builds up?

David Chua 23:51

It's a great point. And this is where I think there are multiple themes, mega trends playing in the background. If I go back to the thesis on power transmission to support data centers, I think there is also another theme going on, which is around national security and energy resilience. So that, I think, is another supporting trend behind some of these opportunity sets that I just mentioned.

Avril Hong 24:15

How do you view data center investments, Shikha?

Shikha Gupta 24:19

Look, I'd agree with a lot of things that you've just said in terms of diversifying where you're investing. Data centers is part of the AI story, but there's other parts as well. And I think in a world where we're actually— it's so much uncertainty, particularly around AI, it's absolutely imperative that you are actually diversified across the ecosystem. And actually, we're talking with two private asset investors here, but I would say the liquidity has become a real asset in your portfolio. You need to be, for those who were in Ray Dalio's talk yesterday, he talked about adaptability, and I don't think there's a more important time to be adaptable than now. You need to build flexibility. You need to have your capital dry so you can deploy if there is a massive dislocation. Not saying you have to ignore, they're really attractive, perhaps, opportunities in private space, but I think that premium, that illiquidity demand needs to go up in this uncertain period.

Avril Hong 25:20

Michael, what does the need for liquidity in an environment of uncertainty look like for a real estate investor?

Michael Smith 25:28

In terms of public REITs, so I was a bit of a REIT evangelist as a real estate for many years, and a big proponent of the establishment of REIT markets in Singapore and Hong Kong and other markets. And at the moment, the volatility around the equity price movements versus a private fund, which we established here in Singapore, it was

just better for us to do a private vehicle than a public REIT. And the investors that come alongside us, this private vehicle, probably similar to yours, is an open-ended perpetual fund. So it's like a public REIT, but it's in private format. And the investors that are alongside us are sovereign wealth and insurance companies who want to have an asset liability match for the long term. On a risk-adjusted basis, owning Singapore, the best sort of office buildings in Singapore make sense to them. They get a total return on a risk-adjusted basis that they're happy with, and they don't necessarily need the liquidity because they want to have the long-term exposure. So for us, it was better to go down the private fund route rather than a public REIT. But to others, the public REITs provide liquidity and a lot of other things. They just also provide a lot of volatility that the private vehicles do not.

Avril Hong 26:25

But do the long-term investors not have to exit at some point? We are seeing a difficult backdrop where in terms of secondary transactions, for example, you're seeing that surge because fund managers are finding it difficult to sell. To what extent does that mean, hey, when you talk to your investors, the exit path eventually looks a bit challenged?

Michael Smith 26:48

So the assets that we own, these village squares, so if it's Hong Kong Central, there's a \$25 billion portfolio of 12 office buildings and two Mandarins. Here, most of the major office buildings around Marina Bay. These are long-dated assets, very resilient, very high quality, very well managed. The investors themselves, so when we create this fund, we're not trying to speak to every single investor. We're looking for specific investors who share our vision that owning these very high-quality assets in a place like Singapore, where the economy is very well managed, there's a trust premium, the Singapore dollar is very secure, all of these things, these type of investors, Qatar Investment Authority, and others, want to have that long-dated exposure. So there is liquidity opportunities for them, but they're not focused on liquidity or exit, they're focused on the exposure to the asset class.

Avril Hong 27:34

David, what sort of timeline are you looking at when it comes to data center investments because increasingly it looks like the smaller players, your new clouds, it's finding a bit difficult for those attractive terms for financing, for example, right? That's what we're seeing in part, what's happening in Australia. How are you thinking about data center investments overall?

David Steinbach 27:57

Well, let me also, I wanted to tag on the last comment made because I think there's a really interesting deeper point here in terms of talking about private markets and the revolution, and then I'll hit the data center quickly. But when you look on the arc of history of real assets and real estate and think about what's happened the last 30 years in terms of, let's say, an asset class that has institutionalized heavily the last 30 years in so many ways, I think that arc of history will continue to play out in the next few years because this super cycle of demand is real, the needs are real, and the ways in are going to need to have multitude ways in. There's going to be evolution of product, and I think the market's going to bring answers to bring liquidity, to bring flexibility, and that evolution, I'm confident, will continue to play out as these things need to get built. And so these are the constraints of the day, but I do believe the market will figure them out, and we're already seeing that in many ways with secondaries, for example, really emerging as an answer for investors to get liquidity where maybe liquidity was less able to be found. On the AI data centers front, yeah, it's really interesting to see what's playing out right now. Obviously, a lot of headlines still flowing through the market, and I think one observation is despite the headlines, not everything

that gets announced is actually getting built. And I think it's an important thing just to say out loud, and I think that that just so don't believe everything you read necessarily, because there's real complexity behind it, right?

Avril Hong 29:30

Except when it's on Bloomberg.

David Steinbach 29:32

Except on Bloomberg, of course. But yeah, there's real complexity behind it. We're seeing this play out around the world where city councils are putting moratoriums or there's issues that emerge when someone's trying to build something out. So I think that's an important thing to realize that it's happening in the market right now. And obviously, the demand is there, but the constraints are there as well. Not only constraints of NIMBYism, don't build it in my backyard, but also of power. And so I think those things are regulating, I think the market now more than probably people fully appreciate, because it's getting more difficult to build out the data centers.

Avril Hong 30:10

Can you give us a sense of how much of a gap there is in what is being out there in the headlines and then what—

David Steinbach 30:17

Yeah, all I have is anecdotal. I'm not going to necessarily forecast that. But the bigger point is that's real, is the fact that not everything is happening maybe as the headlines would suggest. And so that I think does give an investor a sense of— again, when you think about build-outs and think about what's occurring, typically in real estate especially, which is a cyclical business, what typically happens is the overbuild happens. People build too much, there's too much supply. That causes a downturn in many ways. But when there's real constraints to that supply, that inhibits the build-out occurring too quickly. So I'm not trying to say that these constraints are preventing pockets of overbuild or things like that. I'm just trying to say that these constraints are real, and I think they're going to be increasing over time. And I think for an investor that should give some solace in terms of how this could play out.

Avril Hong 31:17

When it comes to constraints, it's also about the uncertain backdrop, the global fragmentation we're seeing. As a real estate investor, what sort of opportunities does that actually provide? You think about regional hubs, logistics, for example.

David Steinbach 31:32

I think there's going to be all sorts of new corridors of demand and markets that emerge, and that's exciting part of this super cycle that we're in. Because again, the playbooks of old aren't necessarily going to work, and I think that investors that are bringing recency bias to their investment decisions could make some bad decisions because they're believing this is how it was last time, this is how it's going to work this time. I think they're missing this deeper thing that's happening in the markets in terms of, truly new corridors are being built out. As different governments are looking at, okay, we need to onshore certain things. And that's really important to our national economy to do that. And we will enable that, we are going to incentivize that. This is going to happen. And that's happening, I believe, almost everywhere in different ways. And so I think investors need to watch now

policymakers in a new way that I think before we didn't necessarily pay as much attention to that, because the market just didn't rely as much on those directives. And so that's an example of things I think investors have to watch this new cycle.

Avril Hong 32:41

Shikha?

Shikha Gupta 32:42

Yeah, maybe I'll just add to that. I completely agree with what you've just said in terms of creating opportunities. On the one hand, fragmentation, from a macro perspective, not necessarily a great thing in terms of it builds inefficiencies as everyone brings shoring back to their own economies, etc. But at the same time, it does create winners and losers, and I think that deeper work in terms of identifying where that is, because not everyone's going to win, actually makes a really fertile environment for active investing. And that's not just in the private space, but across the board. I specifically look after hedge funds, and actually it's been one of the best years for hedge funds in the last couple of years, and I think a lot of that is because of the dispersion in the market, and some of that has trended from the fragmentation that's happening around the globe at the moment.

Avril Hong 33:34

With that in mind, when you look across Asia, because most of your investments are not in Australia. So, what looks good in Asia to you? Are you going to increasingly invest in the region?

Shikha Gupta 33:47

Yeah, we're a global investor. As I said, we do have a total portfolio approach. So, Asia's always been a critical part of our portfolio, but we don't have an Asian bucket that needs to be filled. And so investments in Asia really is debated against everything else we're seeing, and we see whether there's a spot for it. The reality is, in the last few years, the investments into Asia have been increasing. Part of it is because the returns are attractive, but part of it is also resilience in the portfolio, and it really is diversifying because it's uncoupling from some of the dynamics in the US, for example, and that's actually really attractive for our portfolio. So we've already talked about Japan, for example. We've talked about other parts of India, for example. I think there's definitely a lot of value in these economies. There's growth happening, there's private capital flowing in. And actually all of that makes it a really interesting spot for us to be looking into.

Avril Hong 34:44

How are you accounting for some of the currency risks? How are you thinking about hedging?

Shikha Gupta 34:49

Yeah. I'm with you. Currency is top of mind for us. The Aussie dollar is pro-cyclical, and so when a lot of our investments are actually US-dollar-based, it does create certain dynamics in terms of how much we hedge and the liquidity required for hedging that portfolio. And so that's a really big consideration for us, and we manage currency at the total portfolio level. So we're quite agnostic when we're going into an investment, but at the total portfolio level, we'll try and diversify the—and actually it goes to diversification again, is we'll have different

DM/FX basket that we'll hold. We'll hold an EM/FX basket and be actually very specific on how much we're holding in which currency. But the hedging is a real—

Avril Hong 35:40

Headache?

[Laughter]

Avril Hong 35:42

Michael, how are you thinking about currencies? You alluded to some of this earlier.

Michael Smith 35:47

Yeah. I think we're pretty boring versus these guys. So we like the gateway cities. We have limited sort of FX risk. We've got very low gearing. We've sold about \$4 billion of our balance sheet over the last couple of years and de-gearing a lot of our balance sheets. So I think we're sitting on quite a lot of cash at the moment. So US dollar rates going up is quite a good thing for us. So FX is not as much of an importance to us because we're quite focused and concentrated in the markets we operate.

Avril Hong 36:11

We have a bit of time left for closing thoughts. Anything else that we've missed discussing so far this morning?

David Steinbach 36:20

I think it is truly an exciting time. I think it's important to stay optimistic. Things have changed the last few years, and that can be intimidating. It can feel concerning to some. But I think when you look at the bigger picture of waves of change that occur in the global economy, there is so much opportunity embedded in it. You have to go find it. There's going to be winners and losers. There is risk, there's always risk. But there's a lot to do, and I think that that should be exciting for everybody in this room in terms of the possibilities. And so I think having a good perspective on how you balance the risk and reward, but it's all about execution right now. And I think that is truly the scarce resource right now, is being able to execute really, really well. So the shift from beta to alpha, I think is, to me, going to be one of the big themes.

Avril Hong 37:15

Michael?

Michael Smith 37:17

Yeah. Everyone here would have seen how busy Singapore is— Singapore and Hong Kong, *[inaudible]* economies, two of the top five gateway cities in the world. Just phenomenal, very well-planned, great infrastructure, great education, a real magnet for talent. Markets that have capital formation and talent aggregation creates innovation. So, we're just big believers in being able to buy as much as we can, manage it well, bring in third-party capital alongside us, but just be a very focused business of owning the best buildings we can in each of those markets.

Avril Hong 37:47

Shikha?

Shikha Gupta 37:48

I love your optimism, and I'm also an eternal optimist. And so I do think this is a great environment for investments. Having said that, I do think that volatility will continue to be a feature in this market, and so be dynamic, be able to change your views, and be able to lean into the discomfort of dislocations.

David Chua 38:08

Yeah, I think for many of us who started investing post-1970s, there's always been a one-way track, right?

Avril Hong 38:15

Isn't that all of us on this... ?

[Laughter]

David Chua 38:19

And I think today the plates are moving, and it does put into question a lot of assumptions that have been baked in throughout our decades of investing. I think back to your earlier question, everyone, around the 60/40, stock-bond correlation. I think that's one big question. What is the appropriate illiquidity premium one should be expecting from private equity versus public equity? I think that's also being put into question, and so on. So, I just think that today, as we think about investing, it's really around exploring the different scenarios as to how things can play out, and to be smarter in the kind of return risk trade-off we want to be making today. Because I think back to what David was saying earlier, there is really no playbook today, right? And it's perhaps harder, I think, for Shikha and myself, who are trying to invest over the next 20, 30 years or more, to then try to figure out how do we then adapt. So, I think then, to me, that one key piece in building into the portfolio is ultimately on the adaptability and the flexibility of that portfolio. Because we all grew up with the definition of a DM versus an EM, right? But what is an EM today and what is a DM today? What defines it, and what part does it play in your portfolio? I think those are the questions that we all have to figure out the answer over the coming years ahead for us.

Avril Hong 39:41

Just picking up on that point, because we have been seeing EMs do a much better job keeping their fiscal house in order, controlling inflation. Now we don't really have a playbook, as you just alluded to. What is that going to look like in terms of how you think about investing in such markets over the course of the next 10, 20 years then?

David Chua 40:00

And this is where I think why private markets has become a hot topic of late. Essentially, there is no benchmark for private markets. What is the benchmark for private equity? But if you were to invest into equities, somebody would tell you, "Okay, let's measure against MSCI World, MSCI ACWI." There is a predefined investment space based on the stock today. And I think with the increase in allocation to private markets, it does help us, as investors, to think thoughtfully around how do you want to diversify your risk in today's context across the different regions, DM, EM, and so on.

Avril Hong 40:35

All right. That's all we have time for today. Great to get perspective from you. A lot of food for thought from the panelists today. Join me in giving them a round of applause.

[Applause]

Announcer 41:02

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

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