



PRIVATE EQUITY IN TRANSITION: LIQUIDITY, RISK, AND THE NEXT PHASE OF GROWTH

Chery Kang 00:10

All right. Hi, everyone. Very robust session right before we got here. We're going to make it better, even better, right? Yes.

Lilian Fang 00:21

We'll try.

Chery Kang 00:22

We're talking private equity, and the usual headlines are higher rates, a slower exit, and some question marks over valuation as well. But I feel like the question that I want to pose to the guests that I have—the distinguished panel that we've got here on the stage, is, okay, we see some signs of distributions. They're coming back. But it's not coming back for everyone. It's not for all assets, all managers. So, where is that selectivity coming from? How is the industry adapting and evolving? And also, what we do see coming back, is it real sort of recycling or somewhat engineered and structured by the smart people in the industry? So, on that note, I want to kick it off with David. You sort of sit in between. I say in between because you invest in private assets, but for T. Rowe Price, which is a public markets manager. So, do you feel like it's sort of harder to justify that private market premium right now? How does that work in 2026?

David DiPietro 01:41

Yeah, I think valuation is obviously talked about a lot now. I think the benefit of doing what we do on the private side at T. Rowe is you're sort of surrounded by this underwriting discipline, because you know someday the valuation has to face the music. The company's going to go public, it's going to get a public market rating. And so I think when we look at valuation, it's not really so much what the metrics are the day we invest in it, it's really trying to figure out what the terminal value is at the end of our hold period and whether you can discount that back to an adequate return. And so, people get very caught up in today's revenue multiples. And I think what we like to think about is at the end of a hold period—three, four, five years, which is typical for our growth late-stage venture—

what kind of multiple will that company get based on how it's growing at that time, and what do we have to pay today to get a return that is good for our LPs in the case of our private fund. I think almost today in the category we operate in, the thing that's almost more important is figuring out durability, because if it's not a durable concept, even though it's growing very fast today, no matter what you pay for it, it's going to be the wrong number. And so, we are really trying to suss out using the public platform to help us—are these companies going to make it and be successful public companies someday? Because that's kind of our desired exit.

Chery Kang 03:13

Yeah, and I do want to come back to you later on in this panel for the opportunities that you're looking for. But next, I want to sort of juxtapose Gabriel and Lilian—the GP, LP perspective in all this, and maybe Lilian first. Tell us what you're seeing in 2026. Do you think that you—do you find yourself or maybe other LPs more accepting that—okay, you know what? Hold periods are longer. We get it. That's the reality. DPI will come later.

Lilian Fang 03:49

I think it really depends on the type of LP that you are. Some that have over-allocated into private equity is really feeling the pain versus those that have under-allocated to private equity. So, the way that we're seeing private equity is that I think we are genuinely entering into a new era of private equity. What I mean by that is the fact that if you look at post-GFC to pretty much COVID era, we went through a phase that everyone knows—really low interest rate, lots of capitals pouring into private equity. There's huge multiple expansion. Those were really good tailwind to private equity, versus where we are today, which is really the opposite. With higher financing cost, not a lot of multiple expansion—actually, no one will be assuming any multiple expansion—but also much longer holding period, with seven years versus what we know—five years—five- to six-holding period. So, what does that all mean from a return perspective? The return drivers are really shifting. It's really shifting more from leverage multiple expansion to now you really have to rely on earnings growth. So, from a return perspective, you see the dichotomy of the older vintages is a real challenge from a return perspective, whereas we are a bit more optimistic for the current vintages, whereby we are actually already underwriting higher rates, and we know that we need earnings to grow in order to generate the private equity return. So, we need to be aware of the drag that you have in your portfolio. That will continue on for the next couple of years. So, that's very much from a return perspective. What does that mean from an LP perspective is, previously, I would say manager selection for those that use manager as the way to invest in private equity—manager selection has always been very important, but now it is actually more critical, in terms of how we select managers.

Chery Kang 06:27

Yeah. And then let's get to one of them. Gabriel—

Gabriel Caillaux 06:31

I don't think they've invested with us, but it's fine.

Chery Kang 06:34

—well, one out there. I think we've safely established—okay, exits are slower. Do you see the IPO market coming back? Because I've been talking to a lot of people in the industry, and they say, "Yes, we do see some signs of recovery, but not to the degree that we would like to see." Would you agree with that assessment? What are you seeing on the ground?

Gabriel Caillaux 06:59

Yeah. Can I start by just—

Chery Kang 07:01

Sure.

Gabriel Caillaux 07:01

—commenting on something Lilian said, which I think is absolutely spot on and really important, is I think there was a period of time during the frothy period of the market where private equity had lost its way a little bit, and it became an arbitrage game, right? It was a bigger fool's theory. You didn't care what you paid as long as you got the right leverage and you thought you could sell it at a higher price. And if you think about that investment thesis, it's obviously deeply flawed because you're assuming someone's going to be dumber than you and keep paying higher, right? The reality of that is private equity—at the basis of it, what is it supposed to do? We're supposed to be building great companies. I think that hasn't—if you build a great company, I don't care what market environment you're in, you're going to make returns. You're going to make more or less, depending on exit cycles and so on, but you're going to make returns. And that comes to your point about earnings growth. Are you building sustainable earnings growth in your company? Are you building a great business? If you do that, you will create value for your investors, and you will find liquidity. Now, coming to your point on the IPO market, I had a question—unfortunately, we do a ton of meetings during these events, right? I had a question from an LP today who asked me, "Are liquidity markets cyclically damaged or structurally damaged?" Which I think is a really interesting question. And we're all trying to get back to—I'm sure, Lilian, if I asked, I'd say, "What would be your dream percent of NAV that I return every year?" You'd say 25 percent, right? Of course, you'd say that.

Lilian Fang 08:24

That's what—GP underwriting.

Gabriel Caillaux 08:26

Exactly. I don't think we're there yet, right? But I can tell you in a growth equity strategy, which is focused on building great companies, we're somewhere around 20 percent. So, you're getting your money back if we continue to perform this way in about five years. And to me—to that question then, is it cyclically damaged or structurally damaged? I think that proves that it's not structurally damaged. I think what it does say, however, is it's really changed massively because capital markets have become completely unreliable. And you look at the IPO markets right now, they're almost schizophrenic. If you're deemed an AI winner, there is no value people won't pay to gain access to. And we're about to experience this with Anthropic, where—if you think about the hurricane happening around the Anthropic IPO, it is insane that it's going to price at a \$2 trillion valuation. It's crazy. No one here would've predicted that, right? The flip side of that is if you're deemed as not an IPO winner, right? You're at risk of disruption, you're at risk of your economics being damaged—I don't think there's a bid. There's almost no bid for you. And so, a lot of strategies like ours used to rely on public markets as somewhere between a third and 40 percent of our liquidity every year. That's become 10 to 15, and unfortunately, given how volatile the markets are now, I don't think we're ever going to assume it gets back to 30 to 40 percent, right? It's just permanently become that. If you're not above five billion, you can't go public. If you're not a winner, you can't—so it's changed that side of the equation. I don't think it's broken. It's just a different backdrop, and so it means our industry's had to become slightly more creative on how you find your liquidity.

Chery Kang 10:05

Yeah. And we'll hit on that for sure. And Bharat, I thought your participation on this panel was interesting—a very interesting choice by Milken—

Bharat Anand 10:14

So did I. [Laughter]

Chery Kang 10:16

—no, but you're—it makes sense now that you're here. You're the transaction lawyer. You see the deal on both sides or three sides, all sides. You see money coming in, money coming, money waiting on the way, hesitating. What are you seeing from the Indian perspective? What's going on the ground, and what's different this year?

Bharat Anand 10:40

Yeah, I think firstly, it's the exact opposite of what Gabe was suggesting in terms of—look, the arbitrage market—private equity becoming an arbitrage market. I think India is all about growth.

Gabriel Caillaux 10:49

Yeah.

Bharat Anand 10:50

And it's a market where government policy—the PLI scheme of the government, which is backing manufacturing, is supporting the creation of hard assets, and that's creating real growth opportunities and the opportunities for people to jump in. And I'll give you an example in terms of—look, India's always been rich and expensive from a valuation perspective. So, I was reading an interesting article, and I'll use that as an example. Unilever, the UK-listed company, has an Indian subsidiary, which is also listed. The Indian subsidiary contributes about 10 percent of the overall revenue of Unilever. It contributes about 15 percent of the profit—

Gabriel Caillaux 11:28

Yeah.

Bharat Anand 11:28

—but 40 percent of the market cap. So, that growth investing, right—which everybody is chasing—is what makes India expensive. But I think the ground realities are that India has to grow. There is 40 percent of India's population is under the age of 25. It's highly aspirational. It wants to trade up. It's a consumption-driven story. And I think for investors, the key is—look, are you investing in India for India? And there's a huge raft of industries, infrastructure, the consumption story, financing now, of course—and I'm sure we'll come to it in this panel—digital infrastructure. But then you have India for the rest of the world, which is much more selective, much more sort of supply chain, China Plus One, pharma, and some selective industries. But I think that's the story. And to my mind, the teams that have done well—and I think it's for the GPs and the LPs to comment on that—but just looking at it as an advisor, sort of outside in from the industry, the people who've built real capability on the ground—not just capacity, but real capability—deep teams, deep businesses that are in some ways rooted to India and have an understanding of

India. Those teams have delivered superlative returns. But of course, I think now, there is a little bit of a headwind, and I'm sure we'll come to it later.

Chery Kang 12:48

Yeah. So, definitely India doing its own thing in this kind of environment. And David, I want to turn to you next. And the point that came up is that companies IPO not so much, and they're really opting to stay private longer. And that's where we often talk about the convergence of private and public markets. It's really this case of public investors who have been really comfortable investing in stocks, and they're going, "Wait a minute, all these amazing private companies, when they actually hit the public market, they've already grown. They've already seen the market cap, and then trillion-dollar companies hitting the markets—I've missed out." Is that something that says—do you think that is really the trend that will continue? And how do investors really cope with that then?

David DiPietro 13:45

Yeah, look, I think the markets are totally converging between public and private. It's almost become kind of an artificial delineation. So many of the greatest companies right now are private, and it's too compelling to stay private. You're allowed to lose money. You're allowed to make acquisitions. You're allowed to do really outrageous things without having to talk to people every quarter and explain yourself. And people used to criticize Databricks. "Oh, they're going to go public next year," and then it's next year. What he's done as a private company is just phenomenal. For his growth to accelerate at a \$6 billion run rate, he could've gone public three years ago, he'd have gone through '22, which would've been awful, and he probably wouldn't have made some of the great acquisitions that he's made. Meanwhile, Snowflake, every quarter, has got to answer to the street. So, it's compelling, and it's even more compelling because there's so much capital. And a lot of that capital is coming from otherwise public investors and just sliding it across the line into the private markets. And these companies look and act like public companies. They have quarterly earnings calls in a lot of cases with their investors—private investors. They've got great boards. They've got great FP&A. They are just really dialed. And the one thing they're doing that almost nothing in the public markets is doing is growing more than 40 percent. Less than 10 percent of the public tech companies are growing more than 40 percent year over year. And so it's a good setup. I think that is a structural part. I don't know that the IPO market is broken. It's more of a supply problem. If there were more companies lined up, they'd probably get out if they're reasonable and probably have a decent scale. So, I think it is a kind of a permanent thing. I don't think it's a bad thing. It's just not that appealing to be public when you can grow a generational company while it's private with capital from really high-quality investors. And I think that's going to continue to go on for a while because it's working.

Chery Kang 15:50

And what—

Gabriel Caillaux 15:52

Can I add something?

Chery Kang 15:52

—yes, of course.

Gabriel Caillaux 15:53

I could not agree more, and it's a great advertisement for private equity. But what I'd also add is, if you think about when you're a growth company, what you care most about is, one, they let you make long-term decisions. Two, you have advice and help along the way. And I think that's where—when you're building something like Databricks and you bring in private investors that have infrastructure, that help growth companies, right, that have experience, that have been on these boards, you get so much more out of your investor base than if you're a public company right now. And I think that law broke back in the past because private markets were small, and at some point, access to capital required public. Now—David's absolutely right—now, think about it. When we were all ogling at the SpaceX IPO, Anthropic raised \$65 billion in the private markets in one month. One month. You couldn't negotiate price. You couldn't negotiate terms. You barely got access to diligence. And they got \$65 billion in a month. And so, the way I think about it now is I think actually private markets are a better product if you're a growth entrepreneur or growth CEO than a public market. And I think that lasts for as long as we do a good job.

Chery Kang 16:57

Yeah. And I was going to actually go to you next, Gabriel, too, on the massive growth of secondaries. I was reading about—just last year alone, globally, secondaries hit a record of \$226 billion. Does that continue? Or if IPO market comes back—and I don't think that's really the consensus that I'm getting on the stage here—but IPO market comes back a little, then maybe secondaries lose some steam. How do you think about that relationship?

Gabriel Caillaux 17:33

Yeah. First of all, hopefully the message you take away is not that IPO markets are dead. I honestly don't believe that, right? I think they're volatile, right? So, you used to be able to plan around them. Now the windows are short, and if you miss it, you might not find another one for a long time. So, I think they've become more unreliable, but I promise you, we all hope they stay open forever, right? It's a great thing. On the secondaries markets, it's interesting. In private equity, it's one of the few asset classes where the secondaries market is so small compared to the primaries market. And so, in an odd way, we're kind of just catching up to an imbalance that we had anyway. And I think it's a wonderful tool. I know it gets a lot of criticism. The FT loves writing that it's not really risk transfer. It is, right? We're giving our LPs the opportunity to sell risk to other LPs who are willing to buy risk. That to me is exactly risk transfer. Now, along the way, of course, we have to make sure that there's alignment. Of course, we have to make sure there's price discovery and so on. But it is a wonderful tool to create longevity in private markets while respecting your LPs' needs for liquidity. So, I hope they continue to grow. I think they need to formalize. Hopefully—this is Chatham House rules—but in some secondaries markets, it's kind of an oligopoly. You've got very few players with a ton of capital, and when you try to price an asset, they call each other and say, "Hey, what are you pricing it at?" That's not super helpful, but as the market matures, I think it needs to be a huge part of the business, and we intend on participating.

David DiPietro 19:07

And for these growth companies, it's really growing because as big as these rounds are, so many investors are getting shut out. Anthropic probably zeroed half of the people that wanted to buy in the \$65 billion round, so they have to go somewhere.

Gabriel Caillaux 19:19

That's a good point.

David DiPietro 19:20

And the money, and then there's all these evergreen funds that the Coatues of the world and others are launching for privates. And they're getting hundreds of millions of dollars of subscriptions a month. They've got to go buy these company stocks somewhere, and they're not raising every day, so they're going to the secondary market. We have 14 companies in our fund, and we could sell 12 of them probably at a premium to where we're holding them right now, just because people want access to those businesses. So, I think it's big and it's good, and I think it's going to get bigger.

Gabriel Caillaux 19:49

Hope so, yeah.

Chery Kang 19:50

Yeah. And Bharat, that's what you're seeing in India as well. Not necessarily secondaries, but somewhat similar, just sort of holding off on marking to market, using structured bridge rounds and so on. Is that somewhat the same spirit?

Bharat Anand 20:08

No, I'd say that that's slightly more unique on the structured bridge side. If we just take a step back, if you look at, say, '24, '25, they were record years for exits, both M&A exits and IPOs. And I think, in some ways, when you're talking about private equity and you're talking about liquidity, right? An IPO may not really be a significant liquidity event. Although if you sort of start tracking some of the IPOs that have happened in '24, '25, to some extent '26, there has been some component of primary. But yeah, a lot of the investors have tried to do an offer of sale and take some cash off the table. But really the path to liquidity for them is a much longer path. It's sort of calibrating when these exit opportunities will arise, doing their block agreements. Very often, nominees of B funds will stay over on the boards of these companies. And then planning your exit becomes quite tricky because India has some fairly opaque laws on insider trading and what is a Chinese wall defense. You really have to plan your exit and be ready for the multi-bagger and then hope that the markets sustain themselves and you get your pathway to liquidity. What's happened on the bridge round side is that—look, some companies have flipped back to India, they've flipped back from Singapore, from the US. Sometimes they've suffered inversion back, sometimes they haven't. But when you do that, you lose some of your contractual protections, which you would get under Singapore law or Delaware law. You're back in India. Indian law has thresholds in terms of what sort of downside protection you can get in terms of your conversion and the like, and your anti-dilution. And all of that means that if you can't quickly get a pathway to list and you need to raise capital, that capital is coming in at a certain cost, right? It's coming in at a cost in terms of deep discounts towards 20 to 40 percent—discount in terms of discovered price at a liquidity event. And so I think those situations can be interesting. But let's see how that plans out. But I wouldn't say that's a secular trend, but we have seen it in some instances.

Chery Kang 22:13

So, what does that do to the existing shareholders and then the new ones coming in with the protection as you were talking about?

Bharat Anand 22:22

Yeah, it does—I think, interestingly, it depends what sort of structured bridge you're talking about. Some have been from the private credit side, and they've allowed the private credit guys to just convert debt to equity if the IPO does happen and there's an upside. Otherwise, they stay on. Otherwise, it's been existing investors that have really sort of led that investment. And what it does is, interestingly, some of those late-stage guys who led the investment but also the people who did the last priced round—and they were promised an exit, or they thought of an exit as 1.25 times, 1.3 times the price that they were coming in. And so they want to hold it longer till they discover that. Whereas some of the early guys are saying, "Look, let's get on with it. Let's just do an M&A deal if there isn't an IPO." So it's an interesting dynamic, I think. It hasn't really come to a point of heat. But it'll be interesting to see what happens over the next 12 months. Maybe when we're here next year, we'll have an update on this.

Chery Kang 23:12

Yeah. And just speaking of how the industry is adapting here, Lilian, you covered secondaries and the continuation vehicles and so on. What about you? How do you find your LP behavior changing? You briefly touched on the manager selection and what kind of factors that you are thinking about. Do you find yourself—I don't know, getting a little stingy with your fees or coinvesting more, asking for more on your terms? What are you doing differently in 2026?

Lilian Fang 23:49

Yeah. Being an Australian LP, we're quite well known for how we negotiate fees. We are typically very fee-sensitive. That's kind of quite well known around the world. But what's important to us really is coinvesting. So, the way that we looked at our GP is very much a partnership model. So, we've got a very tight group of GPs that we partner with. And along that, we coinvest and co-underwrite a lot with our GP. So, that's kind of core to our strategy. And so, that goes back to manager selection as well, which is how do we ensure that we are selecting the right manager for kind of the next phase of private equity growth? So, a lot of it, it comes down to GP capabilities. Just really understanding what's their toolkit that they use, whether they've got unique way of sourcing, how do they do their operational improvement, what capability, the team. We go through a lot of due diligence and interviews with our GPs, with our managers.

Chery Kang 25:10

Yeah. Thank you for that. And I want to get into the opportunities and what you guys are investing in, what you want to invest in, the exposures that you would like to get. But before that, I want to just get some color on the valuation angle. David, you were just talking about really the fierce competition to get some exposure to companies like Anthropic on the ground. Does that drive valuation to the point that—where it's a little demanding, do you think? Do you think we're going back to a little frothy period in the market?

David DiPietro 25:48

I'm not going to sit up here and say that there's—

Chery Kang 25:50

There's a bubble.

David DiPietro 25:51

—froth in the market or that things aren't expensive. But I think almost in any period of time, when companies are raising, you could say that the best companies are never cheap. And buying the third-best company in a sector because it's cheap is usually a terrible idea. Palantir, even as a public company, traded at 50 times revenues for five years and wiped out half of the active mid-cap managers because they didn't want to own it for that reason. So, I think it's just—obsessing with valuation, I think, is not really a great idea because we don't have any control over what the market's ultimately going to do. I think it really comes down to finding the best businesses. And again, to me, the sustainability and durability right now is the key because we just don't know what's around the corner. And I think I'd rather pay whatever it takes for Anthropic and OpenAI because we're big users of them internally at the company, and we know how good they are, and we know how early innings they are, and we know that open source isn't going to put them out of business, and we know all of that. And yet, if I want to go and look at an AI application company that is trying to get the same type of valuation metric, and they could be blown out of the water tomorrow, even though they're doing \$500 million of revenue today, and they're two years old. Those are the ones that scare me. The best ones, if you can get to them, probably are going to be the best ones five, ten years from now, and you'll make money. I think it's overpaying for low-quality assets in the midst of a very big generational technology shift—which we're clearly in the middle of—is where you get in trouble. And I think, in the growth equity, late-stage venture where we operate, people even at these late stages are running their portfolios like a power law Series A portfolio a couple of years ago. They're like, "Well, we don't know which one's going to win, so we're going to put money in all of them." And you shouldn't be doing that when you're paying \$10 billion of enterprise value for a company. That just isn't going to work. The math is not going to work. So, I think that's what scares me more than paying a lot for Anthropic or OpenAI or Anduril or Databricks. I think everybody's going to be fine over the long term.

Chery Kang 28:23

Yeah. I was actually at a VC event, and this GP was saying, "You can be asking every single question under the sun, and then you miss that 80 percent valuation jump, and what are you going to do with that?" So, on that note, Gabe, how are you thinking about the valuation question? Do you agree mostly with David?

Gabriel Caillaux 28:44

Oh, God, 100 percent. I think that, in particular, the statement of never buy number three because you think it's relatively cheap, right? Valuation is relative to growth, quality of business model, opportunities set, and so on. And the reason Anthropic is so tantalizing to talk about is I don't think we've ever—at least I haven't in 25 years of doing this—I have never seen anything like it, ever. I've never seen a company go from no revenue to run-rating—I don't even know where it is now—85, 80?

David DiPietro 29:12

Yeah. It's in that ballpark.

Gabriel Caillaux 29:14

Billion and—

David DiPietro 29:14

In 18 months.

Gabriel Caillaux 29:15

—doubling in size every year at that scale with the kind of retention curves. It's really unique. So that's why I think it's a fun case study. You take the name off and just do the financials, and I think everyone here would come up with a different value. It's not a case study for that. That said, listen, I think—is it bubble time? It feels like it because indices look expensive and the rate cycle is terrifying and geopolitics and so on. The reality—at least in our portfolio, which is growth-driven and disruptive-driven—the fundamentals of the portfolio have never been stronger. And that includes our software portfolio. The “software is dead” statement, it might be in certain places. We're certainly not seeing it in growth rates we're generating right now.

Chery Kang 29:53

How can you not see that in your portfolio with softwares?

Gabriel Caillaux 29:57

Maybe we just chose the really right software companies. I want to hope. No, I think it's timing and quality. Every time you meet a manager and you ask them about—I'd love Lilian's view on this—but you ask them about AI disruption, they'll tell you, we have a framework to make certain we don't fall in the trap, right? And everyone's framework is slightly different and slightly the same. We probably all asked Claude for a framework, by the way. But the reality is a lot of the software markets or data analytic markets—places that have gotten killed in valuation—they've gotten killed for the wrong reasons. There is no short-term disruption in many of these businesses, even though there's a perception of long-term value disruption, right? And so, I think it's actually creating a fantastic opportunity where—I can think—Databricks is a great one. There was a moment in time where people actually thought Databricks was going to suffer from AI disruption.

David DiPietro 30:46

Yep.

Gabriel Caillaux 30:46

It's absolutely crazy. It's been a massive enabler of Databricks. They've accelerated growth by—I don't even know—

David DiPietro 30:53

It's over 60 percent.

Gabriel Caillaux 30:54

—60 percent. It was growing—so, I think it's actually not a time of, are you worried about the bubble? Are you worried about this? I think it's a time where you need to be a really good stock picker. I think it is not a time where you buy an index and hope it plays off. You need to pick your companies really carefully. You should do it because you have an information edge, and then you should not be afraid to pay up for great businesses because you never get great for cheap, ever.

Chery Kang 31:17

Lilian, your take on the overall valuation feel of it right now?

Lilian Fang 31:24

Yeah. If you look at it—like what Gabriel and David mentioned—that it feels like it is at an all-time high. But at the end of the day, we've gone through many of these cycles. So, it comes down to what we call asset selection, which is stock selection as well. So, that's how you make your money. That's how you make your alpha.

Chery Kang 31:51

Yeah. And speaking of making alpha, let's get into what areas that you guys want to invest in and want to avoid, actually, to make it even juicier. David, are you launching your next fund? Are you looking at some candidates? What are you—because how do you know? Because it's five, 10-year period, you're locked up. I would be so nervous. How do you know? I don't know what kind of world that we'll be living in five months from now. How do you know with geopolitics, AI—

David DiPietro 32:29

Yeah. You don't know. There's been, I think, 11 large language models launched since the middle of September, right? And they're unbelievably better than the ones that they succeeded. So, we don't know. I think the one benefit of doing what we do at T. Rowe is that because of the public infrastructure, we have 200 sector analysts around the world, so they can kind of help us maintain our sanity when we're looking at something and we think it's amazing, and they tell us why maybe it's not. And that's very helpful to have in a market where we don't know what's around the corner. But I think there's some really interesting—first of all, after all these companies do go public, like OpenAI and Anthropic, then all of them—we're going to all have to get back to work again to find—okay, what's the gen 2 AI beneficiaries? Because there are going to be hundreds of them. And then we're going to have to really be good selectors. So, I think that's going to be an interesting thing for our fund, too. But some sectors that I think are interesting and not really AI-related as such are—we've done a lot in aerospace and defense, and again, benefiting from a lot of technology advancements. There's some pretty remarkable things going on across the board. We also seem likely to have conflicts for as long as we're around. And I think the technology's being applied in the defense world—led by Anduril, but there's a lot of them that you never heard of that are also pretty compelling. So, I think that's an area. There's a lot of froth in that world, too, but I think there's a lot of new, really exciting businesses. The way we manufacture things now is getting really interesting. The FinTech world can be treacherous, but we see companies like Revolut really disrupting the bank market in Europe and probably beyond at some point. Every line of code at that company, they built. They don't even use a single outside vendor, and they're doing remarkable things. Ramp is a company that every company in this room ought to be using instead of the one that everybody uses. And there's things going on that are just really disruptive across the board and across a lot of different sectors.

Chery Kang 34:51

And Gabe, you really led your team's focus on infrastructure, energy transition. What's after that, then? Or do you continue—

Gabriel Caillaux 35:02

Oh my God, that's just the beginning of that. I haven't started thinking after that.

Chery Kang 35:03

Beginning of that? Okay.

Gabriel Caillaux 35:05

Yeah. Coming back to what David just said—I know you're right. You can't predict the future. Listen, the way we always think about it is, if you have true thematic focus, you understand what's going to happen to demand and revenue, right? And if you're building long-term revenue, then the question is, are you backing the right business model that's going to extract value out of that revenue, right? If you get those two things right, usually your investment's going to play out, right? So, when you do your manager selection, I'm sure you worry a lot about how do companies perform versus what they predicted. And if you can predict those two things right, you're usually in a good place, even if valuation becomes a variable. On the infrastructure side, nothing you haven't heard. I know Jon Gray says this when he runs around with his telephone in places. It's the picks and shovels of the extraordinary AI demand growth. And so, we have two strategies around that that are specifically focused on emerging markets, because emerging markets—there's the same demand dynamics as more developed markets. There's just a lot less capital and a lot more complexity, and that allows you to really create value for yourself. And that's around two things for us, is the digital infrastructure. So mostly data centers. We also do some towers and some fiber, but data centers in tricky places to build where regulation is complex, access to power is complex, all that. So, Latin America, also got all sorts of import rules, and then the entire East Asian blocs. So, from Korea all the way down to Philippines. And that's been fantastic. If you all wanted to give me more capital, I would put it there, because the demand is extraordinary. I don't think we've ever seen anything like it, and there's a real imbalance between demand and availability of capital. And then we do a lot around power because the unreported real challenge of all these commitments around data center build is how the hell do you power them? And if you look at, honestly, how we're going to power some of these commitments, they're impossible to engineer. In Europe, I'm a proud Frenchman, but in Europe, to get access to the grid for a new data center takes somewhere between seven and nine years. So all these statements—the French president gets up with SoftBank saying, "This is great. We're going to build three data centers, \$30 billion." That is technically impossible. It will collapse the grid. So, I think the power opportunity is huge. We're doing that in emerging markets, mostly around sustainable, because the energy transition needs to happen in parallel. So those, I think, are two exciting themes.

Chery Kang 37:33

Yeah. And with that infrastructure theme, I want to go to Bharat, because in my India panel yesterday, we spent a lot of time talking about infrastructure, how really China really built infrastructure as sort of like weapons of growth, and India kind of missed the timing and all that. Do you actually see a lot of interest in that investment opportunity, or—what are you seeing—

Bharat Anand 37:59

Yeah, no—

Chery Kang 37:59

—in your—

Bharat Anand 38:00

—absolutely. We were talking—there's a company called Ayana Energy, and DFI was invested in that company, and it was just sold. I think it was a five-gigawatt transaction, but I think over \$2 billion secondary sale to a consortium of ONGC and NTPC. So, there is a lot of capital that I think is being attracted to the sector, and that capital is also finding a way to churn and to be redeployed. I think every conversation that we're having is around renewable energy—availability of renewable energy for powering the data centers. Lots of discussions around areas like airports and roads as well. So, I think India is very much trying to create the capital for the infrastructure build-out and to support manufacturing. This PLI scheme—production-linked incentive scheme—came up yesterday on the panel as well. And I think the comment was made that there was a time in India where to get any state incentive, you had to stand in queues and wait until it really impacted your working capital. But now you apply, and three weeks later, you show your evidence of production and the incentive is remitted into your account. So, I think that transparency and that change is a big deal for India, and it's prompting investments in these sectors. So, we're quite bullish about what's going to happen on infrastructure in India. It's always been a high regulatory risk sector. But I think for now, with the advent of industrial parks, investment in renewable energy, it seems to be that things are going in the right direction.

Chery Kang 39:49

What about you, Lilian? Give us your sector view, but also—I don't want to limit your response, but you focus on Asia-Pacific, and you wanted to discuss the opportunities in Asia, and I think that would be very valuable for our audience as well.

Lilian Fang 40:08

Yeah. I think from our perspective, we are looking to allocate more to Asia. We think Asia is probably a really interesting time for us to consider our allocation into this region. If you think about it, over the last 12, 18 months, capital raising's been terribly difficult in Asia. Usually, sometimes it's actually a good time to be looking at—

Chery Kang 40:36

That's true.

Lilian Fang 40:36

—at the geography when things are tough versus when things are going really well. So why are we interested in allocating more to Asia? I think there are probably three key points that I will make. The first one is, if you think about the sophistication of this market, we've continuously seen the market being a lot more sophisticated. What I mean by that is really around managers. There's a lot more depth in the managers in this region. And really, Asia—it's really hard to say Asia overall because every country is very different. But yet, the opportunity here, the penetration of private equity deals are still so low compared to some of the developed markets, like the US. So, we think that there's a lot more growth in Asia. That's one. It's becoming more sophisticated, more buyout deals, which is what we like as well. So, that's one part. The second part that I'll point to is we're quite focused on understanding key drivers of returns. So, if you think about the alpha—to list a market, if you compare the US market and the Asian market as well—the actual alpha between the two markets is actually relatively the same in the last 20 years. But on an absolute basis return—the median return—it's quite different. US is way better. And the reason for that is driven by leverage. And we know leverage is getting harder. But Asia—the other component to it is currency. The currency depreciation is impacting the return in Asia. So, about half of it is driven by leverage, and

we know leverage is getting harder in the US as well. So, what that means is the gap between the return—expected return in the US and potentially Asia might start to narrow. So, in a way, that's why we think Asia is interesting. And the third point I would point to is if you look at Japan, the corporate reforms that's been happening in Japan over the last 10 years has generated so much more—what I call the "demand opportunity" from that side. The take-private, the carve-out of the large Japanese companies, the business succession. And so, Japan is actually becoming a lot more interesting for us to allocate money to as well. So not so much sector. We're looking at it from a diversification and geography perspective.

Chery Kang 43:25

That's a fascinating point on the absolute returns between the US and Asia, and how that's narrowing and something maybe David needs to think about for his upcoming fund here. Really quickly, Lilian, is it just Japan? When you hear corporate reform, is it just Japan that is really benefiting, or do you look at other countries in the same vein?

Lilian Fang 43:50

No, we do look at other countries as well. For example, India. India is really interesting. If you look at the drivers of return, 79 percent of it is driven by revenue growth. And that's really interesting from a diversification perspective as well, whereas Japan is slightly different. So, for us, Asia's got a few different pockets where we think it's really interesting for us to play. Korea, we do look at Korea as well through some of our managers. So, Korea, Japan, India, Southeast Asia—we are interested in it, but the size, the repeatability, the consistency probably is not quite there yet, but I'm sure it'll come.

Chery Kang 44:33

On that note, I'm going to wrap it up. Thank you so much for this—

Gabriel Caillaux 44:35

Thank you.

Chery Kang 44:36

—deep dive on PE industry. I took my notes. I hope you did too. Thank you so much, everyone. Enjoy the rest of Milken Institute Asia Summit.

David DiPietro 44:45

Thank you.

Announcer 44:51

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

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