



The New Powerhouse Investors: How Institutional Capital Is Reshaping Global Finance

Steven Ciobo 00:05

Well, good afternoon, everybody. And can I thank you for coming along to this panel session, the “New Powerhouse Investors.” Can I thank our panelists who are joining us today. And if I could just ask those of you that are staying to grab your seats, and if you’re making your way out of the room, to do so quietly. So, we’ve seen now as part of the “New Powerhouse Investors” that we’ve got sovereign wealth funds, we’ve got pension and super funds, insurers, endowments, so on and so forth, who are all deploying trillions of dollars into private credit, infrastructure, real estate, and energy transition. For more than a decade, we’ve seen capital being plentiful and being relatively inexpensive, but that’s now changing. Increasingly, there’s a focus on supply chain resilience. There’s new pricing in relation to the price of capital. And national priorities also sit inside the allocation fence when it comes to decisions around the way in which capital is allocated. So, I think part of the outcome that we’re looking for today from the panelists is to get an understanding about what long-term institutional capital is actually looking for. Is there a recalibration or a reallocation that’s happening? And if it is, what does that mean in terms of what investors buy, where they invest, who they partner with, and how long they’re prepared to hold? Bigger pools carry bigger expectations, there’s no doubt with respect to that. Policyholders and retirees need predictable, resilient income. And governments increasingly want to ensure that capital is working on national priorities, including, for example, infrastructure, housing, defense, and above all jobs. The jobs question is pressing, just as AI and automation in particular rewrite assumptions around where work is going to come from in the future. We’ve got a great panel here today. Can I start with Nick to my left? He’s the managing director and CEO of Challenger. David Junius, the MD and group CFO for FWD Group. Leslie Maasdorp, the CEO of the British International Investment—sorry, Leslie, I missed you, Debra. Apologies for that. Debra, partner and Asia regional head for Albourne, and Sarvesh Suri at the end, regional vice president for Asia Pacific for IFC. Great to have you all here this afternoon. Thank you very much for making the time. So, can I start with the first scene-setter question to the panel more generally? And Nick, I might start with you, just to kick us off. But in terms of the recalibration, in terms of reallocation of capital, in terms of considerations around geopolitical tension, in terms of the new pricing that’s applying to capital, can you talk us through your thoughts and the way in which that’s impacting your investment decisions?

Nick Hamilton 02:47

Yeah. Terrific. Thank you. So, just for avoidance of doubt, Challenger's an Australian company. We're a listed insurance company that provides retirement income, so we're an annuity writer and investor. I think there's a lot in those opening remarks there from Steven. I think there's probably been a lot discussed today about the changing shape of the macro environment and with moving from some version of globalization to a version which is going to have to emphasize resilience. And I think what resilience actually means is we are short a lot of capital in the world for a whole lot of projects. Not only is there resilience coming down the pipe and resetting a whole lot of supply chains, but there's also the demand for capital from the new technology and data and AI. So, there's that mega trend. And the second significant shift that we see, and it's very core to our DNA, is just demographics. We've had an economy that has benefited from growing workforces, growing tax bases, governments that have been reasonably well-balanced in their budgets, to one where today, and if I just take Australia as the example, where we have the highest median balances in the world for a retiree at point of retirement. All of the wealth of our nation in the main is sitting in our super fund system, which looks homogenous, but it's actually a collection of 20, 30 million individuals. And so the changing nature of the systems that manage those capital pools, I don't think you can underestimate. And as an insurance company, there's a lot of things that a retiree can't do themselves and manage the liability of retirement is the big one, whether it be longevity risk, sequencing risk, market risk. And so I do think there's going to be a quite material change in how capital is allocated as we go from a system which has been moving towards retirement to one that in our whole region is very much either going into or in the main, in retirement, would be a couple of remarks.

Steven Ciobo 05:02

David, introductory comments and thoughts on that?

David Junius 05:05

Maybe I'll just start with some introductory comments. So FWD, we're a young 13-year-old company, but life insurance, everything sort of in a different time frame. We're in 10 countries in Southeast Asia and North Asia. And I think in terms of the investment outlook, I think somehow things change, but somehow they also stay the same, right? So there's wealth transfer in Asia in terms of the generation. There's a lot of wealth has been created in the last generation in Asia. Now a lot of the founders of these companies in countries that have done very well over the last couple of decades, they're reaching retirement age. They're looking to transfer wealth to that next generation, and we're here to serve them. And they're looking for—they might have done very well in their businesses, but they're looking for some more security. They're looking at some trade-off between investment returns and stability. So, one of the things that we're providing to our clients is really around what can we take away in terms of the volatility and give them a more of a maybe a little bit less return for more guaranteed return. And so I think that's a key trend in terms of as people look to generational wealth transfer.

Steven Ciobo 06:18

And Debra, you sit alongside hundreds of allocators. What's your observations and experience in relation to this?

Debra Ng 06:23

Yeah. Thank you, Steve, and thank you, Milken, for having me on the final panel. Really appreciate every year you guys putting on such a great show for all of us. But in terms of Albourne Partners, we're a specialist alternatives investment consultant, and we don't take discretion. So, we provide independent research and due diligence for our LP clients, and it's been an extremely interesting time in the past two years, I would say. And the big trend has been, especially in Asia, which has been a big area of growth for us, along with the Middle East, the idea of trying

to have more sovereignty over your own destiny. Everyone wants to be masters of their own destiny. How do you do that? Look at how you can invigorate your local economy, how you can build those supply chain robustness, how you can just be able to dictate as many outcomes of your own as possible. How that translates to work for us is in Asia, we work for nine to 10 of the sovereign wealth funds, for example, in varying phases of the evolution in investing. But for example, Khazanah just had their Megatrends Forum, Monday to Tuesday in Malaysia, and they're working on things like Dana Impak, which is really trying to support three pillars. One is the venture ecosystem to encourage entrepreneurs locally, and then trying to support growth in the mid-tier companies and help them to scale. And then the third pillar is really working on advanced manufacturing and semiconductor work. To their credit, and credit to Kayse, who runs that program, and Datuk Hisham Hamdan, who's the CIO, but they've also approached it with a focus on having the right guardrails and governance, right? And that has been, I think, a theme. The same thing is happening with other Southeast Asian countries, and that has really resulted in more focus on governance. So let me stop there, not take up too much time.

Steven Ciobo 08:51

Leslie and Sarvesh, you sit in slightly different perspective, I guess. Leslie, in particular, given you're an agency for the UK government. Insofar as you're seeing a reallocation, insofar as government priorities have shifted, and putting particular focus on, for example, domestic sovereignty, supply chain resiliency, what's happening in that sense, and are you seeing a response from private capital?

Leslie Maasdorp 09:16

Sure. One of the advantages of development finance institutions is that we have an enduring vision and perspective, which remains constant, despite fragmentation and geopolitics and so on. Because our perspective, if you like, is informed by the need to allocate our capital in such a way that we can demonstrate, if you like, the patient capital component that we're able to bring other institutions alongside us, and also that we can invest in emerging markets in particular that some would consider uninvestable. Because we contribute to what we call, as DFIs—we contribute to preemptive security. We invest, and we make sure that the typical spillover effects that you have from instability don't flow over into the developed world. And here we're talking about things like illicit finance, illegal patterns of migration. These are big political issues in Europe, for example. So, we invest for the long term. So, we might, Steve, be seen as a niche player in the world of finance, but increasingly, the next phase of development finance is really informed by us getting much closer with your long-term asset allocators. We're getting much closer with pension funds, insurance capital, sovereign wealth funds because we're reimagining our role as DFIs. When I say DFIs, I also include the multilateral banks. Our entire industry is being reconfigured today, driven by a whole range of factors, geopolitical fragmentation being one, just the fiscal constraints of the G7 and the lack of resources for overseas development assistance, the centrality of security and defense in national agendas. So, there's a whole range of factors that have led us to go do some introspection, and we're now in that design phase of looking at how we can be more effective, deploy our very limited, often concessional capital in more imaginative ways. So, in short, what I'm saying is that we have the benefit throughout, whether it's Tory governments or Labour governments in the UK, a consistent commitment to emerging markets, a consistent commitment to low-income countries and frontier markets, which typically you don't hear much about in commercial conversations of this kind. Here, we're talking about markets in Asia, like Nepal, for example. We have been significant investors over many years.

Steven Ciobo 11:53

Sarvesh.

Sarvesh Suri 11:54

And just from IFC's perspective, as you probably know, we are part of the World Bank Group. And for the World Bank Group, our objective, our mission is to help to reduce poverty and to improve shared prosperity in developing countries that we operate in. Now, over the last few years, and I go back to a point Nick was mentioning around demographic changes. If you look at from the developing countries' perspective, we see that there's a youth bulge that's going to come into the workforce. And we see that the developing countries are going to face a significant challenge of creating the jobs for employing these young people that are going to come into workforce. So over the next 10 years, we estimate that without taking the impact of AI into account, there are 1.2 billion people in developing countries that are going to come in the workforce, and business as usual will only create 400 million jobs for that. So, seeing this trend, to allow the developing countries to be able to take this workforce and make sure that this could be a demographic dividend for them and not a demographic weight on them, what we've started to do is we focused on creating more and better jobs as our north star. And the way we are looking at it is through a three-pillar approach. One is all the institutions in the World Bank Group are now focused on working with the governments in developing countries to create reforms that are needed to attract private capital. Number two, we are focused on helping the countries develop foundational infrastructure, both hard infrastructure, things like energy, water services, transportation services, but also soft infrastructure that can help people improve their skill sets, better health care, better education systems in the developing countries. And number three, the two institutions in the World Bank Group, IFC and MIGA, that work mostly with the private sector, are looking to now deploy our capital in a much more catalytic way, as Leslie was explaining, to be able to mobilize private capital at scale. So, just to give you an example, this year, we just closed our fiscal year in June last month, a couple of months back, and we mobilized \$112 billion of capital from the private sector without talking about the own capital that we invested in all developing countries. This is more than three times what we did just two years back. Two years back, we were at about \$35 billion, and we grew it to \$112 billion. Added to that, another \$85 billion of our own capital. Collectively, we were able to raise about \$200 billion of capital into developing countries, mostly in sectors that help to create more and better jobs. Thank you.

Steven Ciobo 14:50

David and Nick, I'm interested, I mean, liabilities drive so much of your investment, the need for resilient and predictable forms of income. To the extent that you hear some of the priorities that Sarvesh has mentioned and that Leslie has mentioned, how does your predominant concern around addressing your liabilities, the need for that resilient income, the need for that predictable income, how does that drive your investment decisions?

Nick Hamilton 15:17

Let me make a start, and David will have a better answer. So, if you think about—there's two sides to this. There's what the company does and what the individual needs. You spend—for a lot of humans, you'll spend your life working and saving. The thing you need to solve there is how do I maximize the assets I get to at the point of retirement. At that point of retirement, you've probably hit your maximum earning potential in your career, maximum savings, and you've got a high degree of financial confidence. What you see in society is financial confidence then just degrades through retirement. And it's not necessarily because they don't have the financial resources, it's just they're not sure how to turn a lump into an income. And I think David's comments were a lower return because in retirement, what you're trying to solve for is the liability of retirement. And parts of it, you don't know the beginning or the end of it, the longevity part of that equation. And all the academic research that's been done into the positive impact that this has in society when you do create better outcomes at the individual level for retirement, it then metamorphoses into the economy because people will be spending more. They'll be

spending more on preemptive medicine. They'll be spending more on taking more pressure off or taking pressure off government services and resources. And so there is a real net positive from the individual's perspective. From the company's perspective, when we write a product, today we will have written a whole lot of 20-year-plus annuities for retiring Australians or for our business in Japan, where they're going to live even longer, for retiring Japanese. And so then what assets do you want to use to back them? We're trying to provide a consistent cash flow for the individual, so we go out and use our shareholder capital and our float to invest into long-dated assets. And this is where you've seen in the last decade the sort of super rise of private credit as an asset class, and you're definitely getting different bookends of people's perspectives on private credit and insurance. And not all private credit is created equal. I'm sure we can talk about that later. But it's a fantastic asset when you can originate long-dated credit, particularly where there's a second-order benefit that it is doing something that's in the national good. So, it is supporting infrastructure spending. In the Australian economy, we've got significant demand for defense spending. We've got to build 1.2 million houses over the next 10 years in Australia. One of the largest house builds in the world is required for our population growth rate. So, there's a whole lot of calls for capital. And that's where if you look back in the history of insurance, we've been responsible at periods of time in history for the development of the US freeways, the railways, etc. The world got heavily banked, but in a world where you're moving to a retirement economy where the wealth is, it looks like it's going to go back to being an insurance-led investment period for sort of decades ahead.

David Junius 18:29

I would just start with everything we do is focused on a customer that generates liability. So, what does that mean for us? That means average durations are going to be long. So, our average duration, our book, pick a country, but the average duration is going to be 10 to 15 years. We're going to have some long-dated liabilities. So by nature we're a long-term investor. Second, we're in these markets. That's where we're generating the liabilities from. So, we're in Malaysia, we're in Thailand, we're in Indonesia, we're in Philippines, we're in Cambodia, right? All of these markets are where people are looking to save and provide for retirement, provide for that generational wealth transfer. And then, in an ideal world, all of these capital markets would be deep enough to absorb these investments on that side. So, I'm looking for investments in all of these markets because ideally, I want to be as currency matched as possible with my liabilities. So, for us, it's very natural to be in all of these markets looking for investment. Unfortunately, some of these capital markets are a bit thinner, so we have to go out and look for other structures, other investments, I'll call it on the private side, where public investments, either on the bond side or in equities aren't available. And so we're constantly out there looking for good infrastructure investments that's going to drive jobs and drive economic growth. But there's a big opportunity in these markets. We see them as underserved in terms of insurance. I think with the exception of Singapore, where we sit today, but other markets that we're in otherwise are very much underserved in terms of insurance, and we see growing demand for insurance, and for both savings and wealth transfer products.

Steven Ciobo 20:15

Can I pick up on your comment about other structures there and segue to you, Debra? I mean, again, you sit alongside allocators. What are you observing that's different today to what it was three or four years ago? I mean, if you think about new partnerships, you think about new approaches. What are some examples that you can share with us around what that might look like?

Debra Ng 20:36

I think the investment choices that we're traditionally turned to are no longer the ones that I think investors can rely on. So that, I think has been on the forefront of long-time investors in sovereign wealth funds and insurance companies as well. There are some sovereign wealth funds that have been around for quite a long time, and even they are having to relook at how they allocate. From the perspective of Albourne, we see that alternatives and private markets particularly plays a very important part in that allocation. And even in the situations where it used to be satellite allocations, now they're kind of core allocations. But I think the ability to integrate that in the total portfolio is still challenging, so liquidity differences and so on. The other investor group that we've seen experience quite a large growth, especially in Asia, has been the insurance companies. And that is part of the wealth transfer effect, and that comes through Asia and through private banks and insurance companies. But increasingly, they have to find domestic or local currency matching assets, which has always been challenging. If you look at Southeast Asia, I mean, the markets are so small, right? One of the ways that some of the investors are trying to solve for that is try and get global GPs to try and do more local, and that is a challenge. Do they hire from local banks and build a team? So, we're seeing that. But there's certainly a demand just from a currency point of view as well. Whether that turns out to be successful, I think it's still to be seen, but at least the way they're building it and the work that we're getting is trying to make sure that the structures are robust, the teams at least have the right provenance and ideally the right experience. But I think we're facing an investment environment that many have not experienced before. Having said that, there has been a big drive for diversification, right? And interestingly, there has been more appetite to look in Asia now. That was very quiet in the past 12 to 24 months. But I was just in London, we had a global client event, but that was a big theme, and that was really a drive for diversification. Also diversification from the US dollar. That has been very relevant for our Asian clients in particular because the fluctuation in the US dollar can dictate your outcomes at the end of the year in unexpected ways. And I think as a result of what's been going on, there's also been a greater openness for alternative alternatives, right? Which is—it could be digital assets. Some people call it crypto. TOKEN2049 is in town at the same time. But someone like Kazakhstan has started the crypto reserve fund. I know Milken featured a Central Asia breakout last year, and Kazakhstan spoke about what they were doing. But this has just been something they started in July this year. Also at the Albourne conference, they talked about looking at gold, so everyone is looking for, just, diversification. But back to your question on partnerships. I think as Leslie mentioned, everyone is looking for new partners and new ways of working together. We've certainly seen that. We have a good number of Australian superannuation clients, and they've been very public in visiting the UK, building partnerships in Canada. Singapore in itself has been very busy building supply partnerships in New Zealand for food. And so I think from that perspective, on the LP side, it's also a different dynamic and people are much more open to collaborating, which can lead to, I don't know, different ways of investing or having investment opportunities.

Steven Ciobo 25:31

Leslie, as a DFI, are you finding increasingly that there's a demand for you to come alongside on investments just as part of the capital stack to perhaps have a lower—a more concessional rate of access to capital? How do you respond to that? And then also, in terms of thinking about the way in which, and Sarvesh, I invite you to comment on this as well, the way in which you partner with private capital. How do you effectively facilitate that and not actually crowd out capital? I'd be interested in your comments on that.

Leslie Maasdorp 26:06

Yeah. Interesting question, Steve. And also, just to build on your point, I think it's important also just to acknowledge the important role that Singapore is playing as a hub of global finance here in the region and a hub in terms of innovation around the green economy. London, in our view, and just to be modest, I think London is kind of the heart of global capital markets. I think the ecosystem and the spirit of innovation and experimentation that

we see make these two centers useful. If we combine our capability, there's so much more that we will be able to achieve in this mobilization drive. The reason why I emphasize that, Steve, is because, as I mentioned in another session earlier on, that we are now going through a phase of laboratory-type experimentation. There's a lot of financial innovation that is currently in play, and that's because our old toolkit is no longer fit for purpose. We are reconfiguring the entire development finance industry to look different so that we can match the fiduciary, and the kinds of return profiles, and the asset classes that we are creating must fit in more neatly into what institutional investors are looking for. So, in short, what we are saying is that development finance institutions have this vital de-risking role to play because there are some things that your traditional industries and commercial investors just cannot do. We can take those risks, and we can make some markets more investable. We often take these things for granted, but if you just take the EV industry, for example, or you take the renewable energy industry, it was the DFIs. In fact, if you go further back to look at the creation of the green bond market, it was the IFC, World Bank, European Investment Bank, that pioneered from scratch these instruments 20 years ago or so. Today, it's a couple of trillion-dollar asset class, but it was created by the DFIs. Again, I'm making this punt for this vital de-risking catalytic role that DFIs play. The next point I'd like to make and also give a punt for BII. We have been significant equity investors over the last number of decades. You cannot just provide debt into a market where the private sector is not yet mature. For capital formation, you need equity, and BII has really differentiated itself over the last couple of decades alongside the IFC as investing in equity, which creates the conditions for your traditional investors and lenders to step in, and that's how we contribute to private sector development. On your question of crowding out, we are always conscious of that risk. We make sure in every investment committee that we have that we, with very clear intentionality, identify what is the market constraint that we are addressing by investing in a particular asset and then secondly, how do we make sure that our investment is catalytic, meaning that it crowds in rather than crowds out. So, we assess every investment through that lens to make sure that our very scarce capital is deployed in the best possible way.

Sarvesh Suri 29:37

Yeah. Just building on what Leslie mentioned, I think from the World Bank Group's perspective, we've gone through or we are going through a very fundamental shift in the way we look at doing business. A few years back, we used to focus on our own lending and how it's adding to development, but now we are totally focused on how do we take a dollar of our own financing and mobilize many more dollars from the private sector. From IFC side, in 2018, we were mobilizing about 70 cents to a dollar of our own capital. This year, we mobilized \$3.4 to a dollar of our own capital. That shows a shift we've made in our business model. So, how do we achieve that? There are three ways we do it. One is, as Leslie was describing, when we come into transactions in the first place, then we try to see how we can get investors such as Nick and David to come alongside us to make investments. So, in that space, we are doing a lot many more transactions than the capital markets, where we come in, we help the companies—corporate—structure bonds, blue bonds or green bonds or sustainable bonds. We come in as a cornerstone investor in some of these transactions. Along with it, the investors get comfort, and they come in and invest alongside. The second way, which is a new model for us, is that we are no longer just originating transactions to lend, but we are originating transactions to distribute. So, over the last year, what we've done is IFC has launched three different securitization transactions. This is about 60 to 70 odd corporate and project finance private sector loans that we've done. We've securitized them in close to half a billion-dollar—three securitization transactions. And in the first one, we had eight institutional investors who came and took in the AAA piece at the top, which was pretty rich pricing for a AAA piece. We took in the mezzanine piece, and there was an institution, actually, the government of UK also helped come in to take the equity piece. In the second one, we mobilized better pricing, more tranche in AAA, and there again, we had 14 institutional investors, including not only from the US, which was the case in the first tranche, but from Europe and Japan also with investors. And now we launched just the third one a few days back, and that's been very successful as well. We plan to do this much more going

forward. So the idea is to come out with a large securitization transaction every quarter to make sure that we can feed in the market. The demand is huge for this. We retain 25 percent of the loans on our own books to make sure that we remain the lender of record, the investors benefit from our preferred creditor status as an MDB. But then the investors, we are able to bring them alongside us. And the third thing that we've also done is that we, along with the European Investment Bank and many multilaterals, thanks also to BII as a DFI, have started to also openly share our loss data. So, just actually yesterday, we launched the next what is called the GEMs report, which talks about the last 20 years' credit history of the public sector loans that DFIs have made and the private sector loans that the DFIs have made, and what are the average pricing on that, what has been the loan default rate, and what is the loss given default in each of these loans. So, the investors themselves can see that actually emerging market risk is a lot more perceived risk than real risk. And hopefully the \$400 trillion of capital, which is out in the capital markets today, we can get 1 percent of it. If we can get even 1 percent of that channelized into emerging market risk, that would help to basically satisfy the developing countries' demand for capital that exists today.

Steven Ciobo 34:01

So, can I ask a harder question, Sarvesh and Leslie? You say jobs are at the core of your focus. So, when we turn our minds towards AI, towards robotics, we're seeing now increasingly, both in the West and indeed throughout the world, heightened levels of consumer concern or general public concern, an attempt around rebranding from AI to SI, all these types of things. But I think encapsulated in that is a concern about what does this mean for jobs. Are we going to see the end of a lot of jobs? Are you having serious conversations about the way in which you allocate capital mindful of that? I mean, is there a concern that we won't allocate to this AI project or something like that because that actually could mean fewer jobs? I'm just interested in the real world. What sort of conversations are you having around that?

Sarvesh Suri 35:00

Yeah. That's an excellent question. Would you like—

Leslie Maasdorp 35:03

You can kick off. I'll go after you.

Sarvesh Suri 35:05

Yeah, so, in fact, every year we come up with a World Development Report which talks about the developing challenges the world faces, developing countries face today. And we just got a report published a couple of weeks back, and the topic for this is AI and jobs. Okay? What's very interesting is that it's a separate economics team within the World Bank Group that does this report on an annual basis, and they publish quarterly outputs out of it, also regional outputs from the report as well. But there are some key themes in the report which are especially interesting. The first is it says that the developing countries are actually a net beneficiary of the AI revolution. If you see, in developed markets, they are close to about 16 percent, somewhere around 14 to 16 percent of the jobs that are at risk to be taken away from AI penetration. On the developing-country side, it's only four and a half percent. So one third of what the developed countries are facing. So the job scare is a lot less. On the other hand, the developing countries, the productivity gains they can get from AI technologies adoption is close to about 16 percent as compared to 18 percent in the developed world. So, actually, for the developing countries, it's an opportunity much more than what we are seeing in the developed world. But the countries need to—in fact, the report talks about the fact that with AI technologies, the developing countries can gain such developmental outcomes in the next 10 years that some of them could take a century to get. The key is for the governments to

get ready to improve infrastructure services, including power, water, but also digital connectivity. In many countries, it's not there yet. Number two, to have those reforms that are needed for helping to have an innovation ecosystem going. Debra was talking about the financing through venture capital funds, so patient capital that can go into companies to be able to innovate their technologies and improve their productivity better. And number three is just helping to create that competition amongst the private sector companies that can improve productivity using the AI technologies. If you see this year within the East Asia and Pacific region, close to 50 percent of the export growths in many countries in the entire region is because of the AI revolution, but that's only on the production side. Countries like Malaysia, Thailand, Philippines, 70 percent of their export growth is happening because of the AI technologies that they're manufacturing. But if you look at how many companies in Thailand are actually benefiting from the AI technologies, that's only 16 percent as compared to 45 percent or so in the US. So, a lot needs to be done to improve for the countries to be able to create the right conditions for the companies to benefit from the AI productivity increases. But overall, in developing countries, in the jobs market, we think that or we are projecting that they are net beneficiaries.

Steven Ciobo 38:48

Leslie, is that your experience as well?

Leslie Maasdorp 38:50

Absolutely. I would love to just build on those points. Firstly, the report that was referenced called *The Promise of Artificial Intelligence* is well worth reading because the World Bank did a much deeper dive into the potential impact of AI on our markets in the Global South. The second piece that is very much worth reading is the CEO of Anthropic's essay that he wrote called *Machines of Loving Grace*, where he argued, and he uses the phrase, "We'll be able to compress 100 years of scientific and economic progress into a decade." And as development finance practitioners, we are very optimistic people, and this idea of leapfrogging has always excited us. The idea that Africa, for example, has leapfrogged. Many people never had a landline, and today they have smartphones. In a similar way, we'll be able to overcome many developmental challenges with that concept of compression of 100 years of progress into a decade. There's a lot of work happening in the DFIs now in terms of developing appropriate AI strategies. We are naturally concerned about the natural resource use issues around water effectiveness, use for data centers. They are big issues for sure, and you've already referenced some of them. But on aggregate, I would agree wholeheartedly with your assessment that the net potential benefits and gains for the Global South from AI is enormous. We believe that the job loss concern, that is the main one that has been flagged every day, is probably overstated for the Global South. It's much more in the developed world, and the number of 16 percent was quoted in the report. I'm a lot more concerned now because last week, Elon Musk, my fellow countryman, gave a talk and said there will be a billion Optimus robots in the next 10 years, which is a pretty scary idea that you'll have machines or robots doing a lot of manufacturing jobs and probably serving us food here in future and cleaning our hotel rooms and so on. A lot of displacement of human labor is what some of the AI techno-optimists are talking about. But where we stand today as DFI, as an industry, we remain hugely inspired by the potential that the technology hold for development.

David Junius 41:26

Maybe I'll just add, from our perspective on the asset side, there's tremendous opportunity. We're looking at power, we're looking at water, we're looking at data centers throughout the region to see where we can invest

because we think that's an area of growth, and we think that long-term infrastructure play really presents an opportunity. But I also think about—so, we're seeing that, but we're also monitoring. We see startup competitors in, I'll call some of our more emerging of the emerging markets, that they're pure digital start-ups, even in the insurance space. And so we're keeping an eye on those in thinking that. And I also find it interesting that when I—one of my colleagues coming from London here—I go to London—we're a Hong Kong-based company, but when I go to London, we meet with investors, and we get put in the emerging market bucket. But I come to Singapore, right, and I'm in Hong Kong, and I'm like, "Well, we're not an emerging market," but we get put in that category. There's a wide range even with our own markets, right? We're in Japan, we're in Hong Kong, we're in Singapore, we're also in Vietnam, we're in Philippines with some real development infrastructure needs that we want to invest in. But I think there is opportunity to leapfrog here, and not just traditionally, but really even within financial services, that true tech native and what's going on. It's both super exciting for us, but also intimidating because, as I mentioned, we're a 13-year-old company, but there's the company that started this year or last year, right? They have an advantage in terms of not having legacy, and can really move quickly.

Steven Ciobo 43:01

Debra, can I ask—you've got among your clients sovereigns and others—where governments put a focus around meeting their national priorities? If you were to see, for example, an assessment of the merits of an investment beyond just the commercial return, but focus on, for example, the number of jobs created, how do you think your client base would respond and react to that? Is that something that's a live discussion, or is it just too difficult and too qualitative?

Debra Ng 43:33

Yeah, I think if you just look at the sovereign part of the institutional investor landscape, sovereigns are not generic, right? There are ones that have a fiduciary responsibility to invest for the future generations, and the governance is usually pretty tight on that, meaning the assets are to be invested and not used for other purposes. And then there's more developmental sovereigns that their mandate is dual mandate, where you're trying to contribute and provide stability and continuity for your own country while making returns. I think, though, that because of just how uncertain the geopolitical landscape is, increasingly, even the traditionally fiduciary organizations are thinking of ways to diversify away from the reliance on the traditional markets, which are in the US, right? And while they're trying to do that, maybe they can also support regional or local objectives. So, that's certainly been something that we've heard a lot more conversation on, and that whole discussion on governance. But this is happening also in traditional pension fund markets like the UK, like Canada. Although Canada has very, very strict guidelines when they set up the large Canadian pension fund pools to make sure that those are separate. But increasingly, if you have a big pool of assets and for those beneficiaries, maybe it's arguable whether how you invest can help the beneficiaries in a different way other than just returns. That's certainly a live discussion. In terms of the use of AI, as David said, AI provides lots of opportunities across the spectrum. Digital assets could be one beneficiary, because crypto and AI can be related. Even in hedge fund strategies, the use of AI now, increasingly, you can have one hedge fund manager with agents. They don't even need to pay a very expensive team, for example. And then investors, they're increasingly trying to use AI to, number one, not only reduce cost, but to increase efficiencies and maybe provide some unique insights. But I think even in GIC's last annual report, they mentioned trialing an AI, like a virtual IC member, like a virtual board member. So, on the LP side, people are thinking about how that helps them be better investors, make better decisions, and oversee a lot more complicated assets in a more effective way. Having said that, the flip side is there is a concern about AI security. And you talk about Dario and Sam Altman and Elon Musk. Well, maybe not Elon, but I think Sam Altman and Dario have come out to say we need to slow down AI. From a client point of view and the LP side of it, they're

very concerned about the data integrity, how AI is being used by their GPs in order to implement their strategies. More so in the liquid markets, maybe if you're buying a power plant, not such a big issue, but still, I think that has increasingly become—it used to be cybersecurity, right? But now it is the use of AI and how their GPs or their managers are using AI in implementation or delivering of their returns.

Steven Ciobo 47:44

Nick, can I ask you—Asia's not homogenous. But we see, for example, in Japan, China, Korea, Australia, typically aging populations, wealthier, to some extent underspending against where they sit. Is Asia still—is that an opportunity or is that a risk from a compelling investment perspective? I'm interested in how you approach that.

Nick Hamilton 48:10

Yeah. If you think about the nation-states and you mentioned, say, Japan and Australia, which are very close commercial trading partners, both of them have slightly different issues. So you've got Japan with 200 percent debt to GDP and all the wealth sitting in the household, on the corporate balance sheet. You've got in Australia, we're trying to direct our debt in the same direction right now, with our budget deficits, and we're taxing our people at the highest rate they've ever been taxed. All the wealth in Australia is sitting in the near-retired part of the population. So, if you're a government wondering how to bring capital or how to increase spending in the economy, when you may not be able to rely, as Australia has, on the industrialization of China at quite the same rate that it had been, that drove our economy for decades. You get different philosophies. And Japan runs its economy with a set of national principles. It has 17 national principles that it then speaks to its companies about. It then asks its companies to come back to us with plans and strategies that can meet those national principles, and I'm sort of giving generalizations there. But it's a sort of a model of capitalism, which isn't directed like maybe capital in China is directed, but the settings are there. Australia is attempting a similar thing, at this point, as you're aware, but it gets a lot of backlash because at the end of the day, and I think David's point is right, all of this money that's been built up in savings in the system ultimately is for the individual. Unless it gets made it, it is not an arm of the state. And so I think there's this real tussle going on, which is playing out just simply because there's a massive demand for capital in the system, but we have been spending and with interest rates now backing up like they have, and the debt bills for sovereign debt and the impact that's going to have on all of the budgets in the period ahead, governments will naturally be looking at these sort of levers to how you get capital out of the system to support national priorities.

Steven Ciobo 50:22

So, we've got less than four minutes remaining. Can we have a quick lightning round? I'll ask each of you, if you think about Asia—and to give our audience some insights, if you think about Asia and where would you invest your next marginal dollar of capital in terms of geography or sector? Let's start with you, Nick, and we'll go down the panel.

Nick Hamilton 50:44

Yeah, it's probably easier to say where you wouldn't invest it right now. We're at such a peak point, in market cycle, and there's a whole lot of rhetoric about this time is different and all of that. And you sort of know it's not. So, liquidity is your friend in this environment. On our balance sheets, we're building up really significant liquidity, and we're not leaning into risk. It is very seductive at this point to go and chase yield and spread form. And I think

the right thing to do is to just be patient and the opportunities are going to surprise us when the market does shake out a bit, which invariably it has to.

David Junius 51:26

I'll go quick, and I'll do two, but it'll be quick. In Vietnam, super excited. 100 million people, two working-age adults for every dependent. You gotta be excited about it. But man, it's a tough market to make money right now. But long term, very bullish. Take Japan on the flip side. Demographics, love Japan, lived there. Demographics are super tough, but real attractive rates with JGBs north of three. And so insurance, it's like a very attractive market. If you have distribution, you have product that you can bring to market like we do, it's very easy to make money. It's never easy to make money, but much easier than Vietnam. But you have your choice within the market, so you can take your pick in Asia. That's the great thing about it.

Debra Ng 52:10

Shorter term, I think, Asia. I think I'm quite optimistic on that. Obviously, depending on if it's hedge funds or private credit or private equity VC or real assets, it would vary according to whichever country it is in Asia. I mean APAC, meaning including Australia and New Zealand. Longer term, I wouldn't bet against ASEAN. I think there's a lot going on there. It's just that it will take some time, and the jury is still out as to whether some of these programs are successful, but I wouldn't bet against ASEAN.

Steven Ciobo 52:49

And Leslie and Sarvesh, you're obviously welcome to share your personal view, but you may also want to do it on behalf of—

Leslie Maasdorp 52:55

Sure. On behalf of BII, of course, as I mentioned, we look at the year now and this year, but much more importantly, we look at the medium and longer term. Decarbonization of Asia is where the strategic priority for BII lies. That's why we have 40 percent of our capital earmarked in climate finance. Unless we succeed, this is where the world's largest coal-fired power grids exist. Unless we succeed to decarbonize this region, we will fail in fighting the climate agenda, and then all of the short-term discussions of sectors becomes all meaningless. So, we need to take that medium-term view and investing in continuing to expand our footprint in the entire value chains around electric mobility, entire value chains around renewable energy, whether it be battery storage, solar, wind, hybrid, that's where BII's focus resides.

Sarvesh Suri 53:54

And as a development institution focused on job creation in developing markets, our objective is to how to create opportunities, bankable opportunities for all the investors in this room to invest in some sectors which are important for jobs. Infrastructure I touched upon, sustainable energy, digitization, transportation services. There are other sectors like agriculture, tourism, health care, value-added manufacturing, and then 90 percent of the jobs comes from MSME sectors. So, we are trying to launch new products to be able to risk mitigation solutions to get commercial capital to invest in these sectors, which are hard to get to otherwise.

Steven Ciobo 54:35

Well, thank you, panelists, very much. Ladies and gentlemen, I think we've had some great insights today. We've got a good cross-section of both government, institutional money, as well as insurance money, etc. I know straight after this, we've got the reception coming up, and we don't want to stand in the way of that. So please join me in thanking our panelists for today.

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