



WHAT OUTLASTS US: BUILDING AND INVESTING FOR THE NEXT GENERATION

Sri Jegarajah 00:01

Good afternoon, everybody, and welcome to this closing panel at Milken Asia, “What Outlasts Us: Building and Investing for the Next Generation.” And as our summit closes, our conversation turns from the immediate to the enduring. And I'm delighted to say that we have Lincoln Pan with us, CEO of Jardine Matheson, and Jim Coulter, founding partner and executive chair, and director at TPG, for this conversation. Gentlemen, thanks for joining me. And we're going to try and answer some of these questions as they relate to the longer-term time horizon. Despite this fatalistic overtones, what are the investment themes that may outlast us? And with the benefit of hindsight, what's proved the long term wrong? And perhaps also, of course, we can take stock of where we stand with the AI boom as this multidecade narrative unfolds. So, let's tackle the first—let's tackle the last question first. How do you commit with conviction to a future you will not be there to see? Because this, in turn, raises a multitude of questions: How transformative will AI be for the economy, our jobs, our lives? Is this the opening chapter of the Fourth Industrial Revolution? And is this why no one seems to want to miss out? And, Jim, let me start with you on this question of how do you commit with conviction to a future we will not be there to see? And just explain this notion of punctuated equilibrium and how change over history groups at moments. This, you feel, is one of those moments and it's time to invest in investors. What does that mean in practice?

Jim Coulter 02:00

Sure. So, let me give you a few hacks that I use to think about this question. If you want to think about the future, the first question is understanding where you are. And I just want to take a moment to set this particular moment. And I'll give you two models that are helpful to me. First of all is this idea of punctuated equilibrium. And the way to dive into that idea is the understanding that Darwin is a little wrong. We were all trained growing up in school to learn about evolution as gradual, continual change: Darwinism. And we were taught in business to do five-year plans, 10-year plans, *keiretsu*, *kaizen*, the Japanese style of continuous improvement. But it turns out that's not really how the world works. In the evolutionary world, there were two paleontologists, Gould and Eldredge in the '70s, went back through the fossil record and found that Darwin wasn't quite right. If you look at how life unfolded, there are long periods of equilibrium, and then all hell breaks loose and you go into another period of equilibrium. That's the theory of punctuated equilibrium. And most change happens at moments of punctuation. What I've learned in business is that is how things play out. For a long time in the US, the number one businesses

are networks, and then there's a moment, and we move to cable TV, and then there's a moment, and we move to streaming. And if you want to understand the future, you have to understand that it is set in those moments, those moments of quite radical change.

We are in one of those moments. After 10 or 12 years post-GFC of relatively stable trends—you went long the dollar, you went long software, you went long private equity, you went long globalism—we are now in a period of time where all of those things are maybe changing and unraveling. And the lesson for all of us is great business decisions, great futures are set by what you do in those moments of punctuation. So, if you want to think about what's going to endure in the future, understand that the change that we're setting right now is likely to signal that future.

Jim Coulter 04:28

So, model number one is punctuated equilibrium. Model number two, and I'll do this quickly, is something I learned in my childhood. I grew up hanging out in bowling alleys. I don't know if we have bowling alleys here, but there are two things that go on in bowling alleys: you bowl and you play pinball. Bowling is a repetitious thing you do over and over again; you get a little better each time. You throw the ball. You watch it. The pins fall. For much of the last 20 years, people have been bowling in the investment world. You change your asset allocation just a little bit. You do a software fund because the last software fund did great. And that's worked. But the other game in the bowling alley is pinball. And the way pinball works is it's totally unpredictable. You put the ball in the area, lights go off, and if you're in the right place, you score a lot of points. You try to use your flippers so that you don't go down, but it's a totally different type of game. So, at this moment, after bowling for a period of time, we're in a world of pinball. And all of you have to set up yourself for the future, understanding you're not bowling anymore. Things are going to be changing and that's a different game. So, I think as we think about what's going to endure in the future, we have to understand that that future is going to be set at this particular moment, and the game has changed.

Sri Jegarajah 05:55

We've all got to be pinball wizards then, like Roger Daltrey. If anyone remembers The Who going way back and I think—

Jim Coulter 06:02

You're pulling it out from the past.

Sri Jegarajah 06:04

—yes, maybe the audience does.

Jim Coulter 06:05

Yeah, but people, if you watch pinball players, who are a little bit different than bowlers? And so, all of us who have gotten really used to bowling have to kind of go over to that other part of the alley and think about this particular moment. Like, I don't know, we'll talk about this later. I don't know exactly what's going to happen in AI, but you're going to have to put your ball in the middle there, get ready for a lot of lights going out, and understand that it's going to be a little noisy and a little bit bright for a period of time, but you have to be in that neighborhood.

Sri Jegarajah 06:37

And you've got to be ahead of that little silver ball, regardless of where it goes to the best of your ability. And Lincoln, let's touch on this. And how then do you navigate and reconcile this tension in your business between the short- and the long-term investment horizon?

Lincoln Pan 06:56

I think Jim actually owns a bowling alley in your Asia portfolio, if I'm correct?

Jim Coulter 07:00

Absolutely. We have.

Lincoln Pan 07:01

You're actually putting your money to work. So, I represent a conglomerate that's been operating in Asia for almost 195 years. So, again, AI is sort of the latest, greatest change in winds that we need to try to navigate. And we're a family-led business. And part of our discussion with the family is how do we pass the baton? We're running laps. Our laps just so happen to be 10 years. There's a 10-year lap. So, how do you pass the baton to the next generation that's better than the current one? And sometimes, it is about making sure our businesses are defended against these changes. Automation was a change. Digitization was a change. Our businesses need to adapt it. AI is the latest one of these. But if we think about how do we want to leave a business 10 years from now better than assets that we have today, some of it is going to be investing away from AI, simply because we need certainty. I can't reset my business every five to six years, like Jim and his team. This fund didn't work. Let's hit the reset button. Let's go that way. We're going to be largely dealing with our asset pool today over the next 10 years. So, then it's adding to it with businesses that are defensive and growing across the portfolio, and also being smart that some of the businesses we have aren't going to make it 10 years from now, that are entirely AI-defensive and getting 5–6 years ahead of the curve, and cutting that out of our portfolio. So, in a sense, we are as a business, we don't try to get caught up in super interesting things right and left in the next six to 12 months. It starts with defensiveness, and it starts with making sure our principles are flowing through the businesses we invest in, and it's making sure the businesses in our portfolio are around and stronger in 10 years.

Sri Jegarajah 08:42

Lincoln and Jim, can you give us some color on how you conduct the process, then? How do you screen and evaluate longer-term investment prospects, especially in an era of AI and robo-analytics, which is arguably, maybe, helping or hindering what you do?

Lincoln Pan 09:02

Yeah, I'll give you one example. I think a vogue in Asia investing five, six years ago was heavily around software, software outsource services. And virtually every fund, and even corporates, was going along in this space. And that is a space today, if you look up the future, the pricing in that space, the resourcing you need, the capital investment needed to stay competitive, has a really wide range of outcomes. That business may do really well. This business may not do so or may not do so well. You have massive ASP compression in the space. So, again, for us as an investor trying to navigate through complex Asia seas over 10 years: I hate this. I hate this, because if I lose the money of my shareholders, we can't raise more money to get it back. So, again, we're looking at businesses which have a relatively narrow range of outcomes. Which is why we're investing in things like HVAC maintenance, cooling maintenance. Why we invest in a business like radiology, where there's a shortage of doctors, and where

technology can help support—further support of the space. So, this is sort of our principle is kind of narrowing the range of outcomes for capital we put to work.

Jim Coulter 10:13

We're still in that bowling alley. So, there are some things we're bowling. Experiences. Sports. People are—sports teams are blowing up in valuations because they're anti-AI. They're real-time things you have to do. Cruises. So, we have a number of themes that are very long-term themes that we're still bowling. But over on the other side of the bowling alley, we're playing pinball in AI because you have to shorten your cycle. Anyone who tells you that they know what the AI world is going to look like 10 years from now—so the way I think about it is a fog has come in and you shouldn't outrun your headlights. Your headlights are only a few years right now, and you have to set up for—you have to get yourself in the right neighborhood, but don't think that you can see 10 years.

Sri Jegarajah 11:02

And if you're driving in fog, do you have to slow down? Is it the same?

Jim Coulter 11:06

You better have a good driver, and you better have the right kind of car. But I don't think you can slow down in this world. But you can make sure that you're not thinking you're seeing the road ahead at the time, and that you're set up for uncertainty.

Sri Jegarajah 11:22

Is that what's going on now, Jim? There's a fog of uncertainty because of concerns about regulatory overkill, the kill switch, China competition, circular financing fears. What's your best sense of cutting through that fog? And is that why the market is really struggling and trying to come to terms? And you're seeing this stress in some corners of AI-related credit markets?

Jim Coulter 11:50

Yeah. So, I'm your ambassador from San Francisco here today. And so, let's talk a little bit about AI. Just to give you a sense, every conference room, every event like this is talking about AI. We're living it in San Francisco. So far this year, through July, global venture capital—these numbers just came out. They stagger me, and I'll get them from memory, hopefully about right. Venture capital, first seven months outside of the US, about \$130 billion in the world. In the US, outside of California, about 100. Venture capital in New York is dead flat the last three or four years. Nothing really going on in New York. Venture capital in California, almost \$400 billion. Of that \$400 billion, \$270 billion is going into the city limits of San Francisco. This has never happened. I think maybe the only time it's ever happened like this before would be Detroit in the '20s, where a revolution is happening in one place. So, we're living it every day in San Francisco. And, essentially, I think the three key words are: I don't know. I don't know. Because everyone in AI is telling you they know. But I think history would tell you that you should have some doubt right now. So, let me give you two ways of thinking about this. First of all, you have to think about what's the same, and you have to think about what's different from past cycles. One of the things that's the same is that you have to remember that everyone can be both right and wrong. My gray hair tells you I was around for the '99 tech cycle. The entire world was right that the internet was big. This was no surprise. The internet was big. The entire world was buying AOL, Yahoo, Cisco, and Intel, all of which went down 90 percent over the next two years. So, you can be right on the theme, and as an investor, you can be wrong on the business model. So, we're at

a moment where everyone gets that AI is big. I don't want to hear how big it's going to be again. But what is interesting is which business model? Open, closed, apps, large language models? And that's where the rubber is going to meet the road for the next few years. So, if that's what's the same, that it's going to be at this cycle about business models and who wins. What's different is this is a physical cycle and a digital cycle together. You understand digital cycles because you've seen a few of them, but most investors haven't seen a physical cycle of this scale before. You really have to go back to the railroads. And physical cycles are different. The railroads were great for the economy. They were great for the country, and half the railroads went bankrupt. Airlines were a great physical cycle. They were great for—the airline industry did well; most airlines didn't. So, we have to understand at this moment the physical side. Will all data centers prosper, or will some prosper and some go bankrupt? These are the questions in front of us. So, this moment of punctuation is very much about getting the questions right.

Lincoln Pan 15:08

Maybe to jump in, I'll let Jim be the oracle on AI on this panel.

Jim Coulter 15:12

The words are: I don't know.

Lincoln Pan 15:17

Managing family capital, it's quite interesting around the conversation of AI. Because, on the one hand, it's: you need to be at the forefront of implementing AI across our businesses and thinking about making sure our businesses stay competitive. But with principal capital, the family behind us always asks me: What then does that mean for the 650,000 people we employ in Asia? You can push this all you want and be competitive and deliver better returns, but you have to answer this question of what happens to the 650,000 people who work for us. Now, why does that matter? Now, there is not just a social responsibility, which of course we do have, but I use a very simple example. If we implement the best robotics, the best AI language models in our business in Indonesia, and we eliminate 100,000 jobs, I will guarantee you in two months we won't have a business. In two months, we won't have a business. Does the government—you've created a massive social problem for the government. And this is where we have to—in Asia, out here we live in a very different world than the US, where the US is largely agnostic government for these issues. Where most of the markets here we live in, particularly in places like Indonesia, in places like China, you create this social problem; there's a social consequence for your business. And, again, this is why, as family capital, you have to look at this side by side. We care about this. It's not a social service. It's part of our ability to survive for another 10 years.

Sri Jegarajah 16:50

So, you're saying, Lincoln, that you would define this as a social obligation that makes business sense to all stakeholders, including the workforce.

Lincoln Pan 17:00

Yeah. And this is part of—as you think, as we as a company, think about 10 years from now, 15 years from now, what matters to us, we want to be absolutely top-quartile financial performance versus our peer group and versus other capital returns in the market, but we're not going to do it at expense of certain principles. And when we started the journey to evolve to become an investment company, my shareholders and my family shareholders needed three things. One is we need to continue to be a contributor to our social economies. Second is we need to

find a way to protect the many employees who work within our ecosystems to the best of our ability. And third, a word that hasn't been spoken in three days here at Milken, we want to have sustainable, ecologically sensitive businesses across our portfolio. It's not—we're not social enterprises. But we have to answer these questions side by side with delivering top-quartile returns. And ultimately, as a family shareholders, they want to look in the mirror 10 years from now, 15 years from now, and says, we've been a good investor, but we've also not abandoned the communities in which we live. It goes back to permanent capital versus fund management. I can't hit the reset button every five to six years and say, I don't want to be in this market anymore. I don't want to be in this sector anymore. We are here.

Sri Jegarajah 18:21

Lincoln, that's really interesting. And you, I, and Jim were talking about not quite the death of sustainable investing in the green room, but we were talking about why it has slipped from the agenda. Tell us why your shareholders remain passionate, however, about long-term sustainability investments and carbon neutrality.

Lincoln Pan 18:46

It's not a long answer. They just care. They just care. That this is something they, as a family, want to be seen as being responsible for. And actually, that's the end of the sentence. There's not a—of course, that may translate to better returns, and it's the right thing to do for our business. That's the right public relations answer to it. But for them, it's simply: we care about this. Don't build a business that does not deliver this for us.

Sri Jegarajah 19:17

How difficult is that to do? And Jim, weigh in on this. In an environment where the global fragmentation is leading to an arms race. It's leading to the military-industrial complex. It's leading to this rise in defense stocks that we've seen. Energy crises in Ukraine-Russia, and now with Iran, mean that all options have to be on the table because even coal is making a comeback. How difficult is it to have that conversation, then, about neutrality, carbon neutrality, and sustainable investing in that environment?

Lincoln Pan 19:57

It's a very difficult conversation. You give a very specific example, like right now in a country like Indonesia, which is facing energy pressures, like many other countries in Southeast Asia. So, the purely ethical investor says we cannot increase our coal quotas. The country needs it. The country needs coal quota, needs a higher coal quota, and deliver against that coal quota to support the needs of the broader population. And these are not—these are—again, with a family investor supporting us, it's entirely around, you have to answer these questions, and you have to balance these considerations with the right economic outcome at a point in time.

Sri Jegarajah 20:35

Jim, weigh in here, because sustainability funds are central to what you do.

Jim Coulter 20:39

This room may not know it, but we run the largest private equity sustainability platform, something called TPG Rise Climate. We just closed a \$10 billion fund. And as the discussion of sustainability has gone down, the investment opportunities have gone up. So, we had our biggest investment year and our biggest exit year last year. And what's

happened is the world's focus has moved on to other things. But actually, the fundamentals underlying the market, which is we need more energy, and clean is the fastest and cheapest way to get there, has allowed us to actually accelerate sustainability. Sustainability is a 20-, 30-year play. And it goes in and out of fashion, probably based on what the world is worrying about at any given time. But make no mistake, it is one of the great investment theses of all time, and we continue to lean into it. One of the things I've learned in a long time of investing is the most popular thing to do is not always the thing that will drive the most returns. Both of us, I think, are committed to an idea that I'm going to call "and investing," that you can make great returns and set up for long-term sustainability. And if you have a long-term view, you have to do "and investing." And we'll continue to be leaders on that.

Sri Jegarajah 22:08

Jim and Lincoln, perhaps you can both weigh in on this next question. A consistent theme that speaks to diversification and, perhaps, a hedge against AI, are longer-term secular themes: health care, biotech, the experience economy. Jim, you touched on this: live events, entertainment, sports, franchises—throw in education, which is hugely under-resourced and under-allocated. And are these the businesses that we need to build that can truly outlast a 10-year fund or a cycle? Jim.

Jim Coulter 22:44

Yeah, I think. So, one of my big themes right now is something we're calling the real—the reset of the real economy. If you look at the S&P 500 over the last 40 years, when I started, it was 75 percent of the value of the S&P 500 was backed by tangible assets. Today, that number is 8 percent. Only 8 percent of the S&P 500 is backed by tangible assets. That's because we moved a lot of our tangible assets to Asia. We haven't invested in it. Software overperformed; industrials underperformed. So, the market ran away from tangible assets. We let our infrastructure crumble around the world. We didn't invest in our supply chains, etc. That is changing. Post-COVID, that is changing with a vengeance. Everyone's focused on the Mag Seven. We follow something called the Physical Seven, which is the Caterpillars, John Deeres, etc. The Physical Seven is performing better than the Mag Seven. Utility services, on fire. These are parts of the economy. So, we are in the developed world resetting our physical economy. That is a huge investment theme, but it's very different from that 40 years of digital investing that we've been doing. So, I think we need to learn to build things again. And you're seeing that happen in spades in the US.

Sri Jegarajah 24:07

Lincoln.

Lincoln Pan 24:08

Yeah, we're seeing in Asia, plumbers outbidding investment bankers for houses, given how much money they're making. So, for us, as we look over the next 10 years, what are we investing behind? Partly because we still don't know the answer to this question: What's AI going to do? What's the right bet to make in AI? Well, we love physical services like Jim is talking about. We love construction. We love HVAC services. We love cooling services. We love plumbing. We like hotels. You know why? Because if all these AI models are right, everyone's going to have a hell of a lot more free time, and please do it drinking in hotels at a Mandarin Oriental hotel in the future. And the third thing is, particularly as people have more time, they're going to be more wellness-oriented, and radiology clinics is a heck of a good place to get scanned, so all of us can live longer and come more to Mandarin Oriental hotels.

Jim Coulter 24:58

Yeah. We own a golf course company. People are playing more golf. I don't know.

Sri Jegarajah 25:05

I'm not a big golfer. I'm more of a runner. I'm not sure how that's monetized, probably with wearables and smart devices.

Jim Coulter 25:15

Shoes, yeah.

Sri Jegarajah 25:16

Huge market.

Lincoln Pan 25:17

And more MRIs.

Sri Jegarajah 25:20

Yes. Jim, last word to you, and Lincoln, as well. We've got about five minutes left. And you said—I just want to circle back to something that you said, and I wanted more substance on it. Everyone was right on the importance of the technology—this is going back to the dot-com boom and bust—but yet was totally wrong on which business model would win. So, fast forward 25 years, how would you answer that question today in reference to the entire AI ecosystem? Within that ecosystem, which business model wins?

Jim Coulter 25:58

Yeah, we're at that moment where, again, we're probably all right that AI is going to be big, but how you're going to monetize it is really interesting. So, let me just touch on the questions because the answers are not yet clear. You're seeing a massive battle set up between the large language models, which, basically, the Anthropics, OpenAIs, Geminis, are betting that everything is going to go through these mega-models that are going to become like Apple or become your language of the future. That's one business model. And tens of billions of dollars are being spent to support the compute to allow that to happen. On the other side, Jensen and the Chinese are pushing open-source models, which is commoditizing the models, which means that the app system will be more valuable than the model system. How that business-model mix works out is going to be one of the great battles of all time in business. It's very early to tell. Whoever you talk to that has chosen one of those models will tell you why their model is going to win. But the investors who figured out which one is right are going to be the ones who drive a lot of the returns in the coming era. So, once technologies are developed, it's the business models that usually are the key. And that's where we are in the cycle right now. We have to understand the business models.

Lincoln Pan 27:40

I think the risk we think the most about at this point is actually political risk. If you look at this debate about the US and China, and the significant bets many people are making around this sector, particularly around data centers and AI, large language models coming out of the US, it's a highly concentrated bet on the stability of US data policy. That the treatment and the allowance for companies from the US or principally domiciled US to operate

globally in a stable—in a certain way, and over the next decade is a highly, highly uncertain risk that no one can underwrite. So, you have data centers being built out here in Asia, significant capital being put against this, that is largely going to be serviced and customered by US hyperscalers operating and influenced significantly by US government policy. And that is the thing I think about quite constantly around risk we, as a business, need to be extremely careful taking. And this is something learned from 10 years ago, 15 years ago. A key theme for investing in Asia for most of my career is that Asia is going to be the manufacturing warehouse for the rest of the world. How is that paradigm playing out today? With tariffs and trade wars?

Sri Jegarajah 29:03

We got one minute left, and sorry, Jim, go ahead.

Jim Coulter 29:06

I want to just come back to this point, end on a little bit of optimism. First of all, invest in investors right now. This is a period of time, that moment of punctuation, where the choices you make will set up the future. Secondly, we need leadership, intellectual leadership. And to do that, get really curious. Like, this is a time, don't listen to what you're being told, and get really curious about how this technology really works and how the future will be. And lastly, I'm optimistic. You know, we need leadership, and few leaders are ever effective by saying, "Follow me, this is going to be awful." We basically need to look to how we can create a future that empowers positive social change, not negative social change. And I think we're going to get there.

Sri Jegarajah 29:56

Final question. And I know that—I hope that the organizers can perhaps indulge me—but to both Lincoln and Jim, if we have, and I hope we do, this conversation in another 20 years' time, speaking to this theme of outlasting. Is China going to be winning the AI race? Will China be on top, or will the innovation incubator remain in Silicon Valley and the advantage to the US?

Lincoln Pan 30:27

As an Asia investor? What we want here is actually neither side winning. Companies will benefit more from open source. Companies will benefit from more flexibility of tools to use. That ultimately will make these companies work best.

Jim Coulter 30:44

You know, the world seems to go to "or" all the time here, that there's one winner or the other. I think that there's going to be multiple winners in this. And that what we have to set up is for civilization to win. We have been in many periods of time where you've had multipolar geopolitical leadership, where we have made great progress. And so, I'm going to be optimistic and say that it's not "or." There's robotics. Right now, there's a lead in China. Digital AI, there's a lead in the US. I think those things will come together and many boats will rise. It doesn't need to be "or."

Sri Jegarajah 31:24

Lincoln, Jim, thank you very much indeed. Stimulating conversation. Let's all try and get ahead of that pinball. Thank you very much.

Lincoln Pan 31:44

Thank you.

Amos Garcia 31:45

Thank you, Sri, Jim, and Lincoln. I'll keep this short. So, thanks everyone for joining us at the 13th Asia Summit. It's been a real privilege to host you all here in Singapore again. While our Singapore event has ended, there is no shortage of Milken Institute events and convenings for you all and for us to continue these discussions. So, if you would like to continue these at future events, please don't hesitate to reach out to any Milken Institute staff to learn more about the ones that you see there on screen. So, that's it. I hope you learned some new ideas. I hope you made some new friends, made some new partners, and leave with a better understanding of what it means to lead with intelligence. So, thank you. Have a good weekend. And that's it. Bye.

Announcer 32:39

Thank you for attending the Milken Institute Asia Summit. Please join us for food and drinks in the foyer as part of the closing reception.

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