

# Convergence, Carry, and Change Webinar Transcript

## TRANSCRIPT

**Maddie Santoro:** Good morning, everyone, and welcome. I'm Maddie Santoro, part of PGM's Consultant Relations team. I'm excited to be moderating our discussion about opportunities for investors in today's unsettled market environment along with some of the potential risks. Many of you may have already read PGM's 2026 Year Ahead report, which offers up some of our best investment ideas and our outlook for the remainder of the year. In such a fast-changing environment, PGM experts are here to discuss some of our best ideas capturing alpha, including opportunities and risks through the public private convergence, portfolio, implications from shifts in interest rates, fiscal policy, AI and geopolitics, and the diverse potential for growth across sectors, regions and asset classes. To discuss these trends, I'm joined by three of my distinguished colleagues who I'll have introduce themselves.

**Richard Piccirillo:** Hi, Maddie, this is Rich. I am the co-head of the fixed income multi-sector team.

**Maddie Santoro:** Lee?

**Lee Menifee:** Yes, good morning. I'm Lee Menifee and I'm head of America's Investment Research for the real estate business.

**Mary Flaherty:** And good morning, everyone. I'm Mary Flaherty and I am a client Portfolio Manager for Jenison's large cap growth Strategy.

**Maddie Santoro:** Great. Before we dive into the discussion, I just want to take care of a few housekeeping items. On your screen are multiple boxes, but the most important one is the Q&A. We encourage you to submit questions throughout our discussion and we'll try to answer them during the webcast. If not, we'll make every effort to follow up via e-mail. Lastly, there will be an on-demand version of this webcast and a written summary for those who may also be interested. Now let's get into our discussion. Before we dive into specifics, I'd love to get all of your broad views on where things stand in your respective asset classes. Rich, let's start with you.

**Richard Piccirillo:** Sure, Maddie, you know as it often does a lot of times it starts with GDP and economic growth is considerably better than expected a year ago. And if anything, the risk of overheating is increased. We had stronger than expected economic

growth last year, so in excess of 2% and this year stronger than our estimate for potential growth and once again you know closer to 2 1/2%. But the growth drivers lack breath with an over reliance on say consumption from higher income consumers. And so you're seeing a contrast from sentiment indicators which are quite low, but which sample from a broader income spectrum or consumers where retail sales and consumption has been buoyed by higher income consumers, a narrow CapEx contribution. What I mean by that is tech companies have hiring a substantial contribution to the economy, whereas there was an expectation for leveling off and declining in capital expenditures given its entire uncertainty related to tariffs. And there's an expectation that that contribution from, say, data centers will continue to contribute to the economy, say, up to 1 or 1 1/2% in the peak years. And also likely over stimulative monetary and fiscal policy. You're already seeing over stimulative fiscal policy where you have budget deficits, even though the economy is growing and then there's a risk of the Fed easing too much. So along with looser regulatory environment, although it's narrow, it has supported a really positive environment, you know, revenues, earnings margins, stable leverage ratios which are quite important for fixed income investors. And then you know that's all contributing to a low level of defaults whether that's in high grade or high yields. So we're generally supportive with two main issues. One, spreads are tight across fixed income sectors and so that reflects or spreads already reflect valuations, reflect all those contributing factors. And really the second is it's an environment supportive of issuance where you can get supply LED widening, or near-term demand may encourage increased leverage in some of the companies.

**Maddie Santoro:** Thanks Rick. Lee?

**Lee Menifee:** Let me just take a step back about real estate and where it's situated. And, really we're coming off a three-year period of a repricing of the asset class. And you know, risk mentioned that you know, fixed income spreads are quite tight. Real estate valuations are actually broadly in line with historic averages now after these three years of repricing. So we feel good about where the valuations sit from a bottom of the cycle perspective. How those valuations grow over the next year or two very much depends on quite a few different factors including continued demand growth, but also resumption of capital flows into, into core real estate in particular. So when we look at where the asset class is, we have good visibility on where the bottom was and we have high conviction that we're at the beginning of the cycle, whether or not that's an aggressive valuation gain cycle over the next year or two. That's not our base case assumption, but the path is generally up.

**Maddie Santoro:** Great, Mary?

**Mary Flaherty:** Yeah, you know, we continue to believe the backdrop is supportive of growth equities, not just from a macro level, but also on a, on a fundamental level. A slower or a low,

lower growth environment is actually better for true secular growth companies because this is the type of environment where they can really set themselves apart. They're not GDP plus growers, meaning they're not reliant relying on the underlying economy to boost them and but rather they are taking advantage of structural shifts in their industry and they can grow independently of the broader economy. And the huge secular trend that is AI just continues to really be a juggernaut and evaluations are elevated, something we hear and are can and, and watch closely, but you know that. So that means that there is no tolerance for missing earnings expectations and really in many cases even just meeting expectations. And this will likely continue to lead to volatility as we saw last year. But despite the skittishness around valuations, corporate earnings have continued to grow solidly and are, in our view, justify the valuations of a secular growth company.

**Maddie Santoro:** Great. Lee, what are some of the global factors driving the widening gap between housing supply and demand?

**Lee Menifee:** Yeah, housing is definitely the topic right now. And I would say that there's a lot of focus in particular on rental housing in the US, but also around the world. Really what we have are two things happening at the same time. The 1st is that we have had continued demand for housing and that's mostly driven by demographics, household formations to some extent, to some extent migration, really a lot of demand growth for housing across all income segments. And we've had both a cyclical and structural undersupply of housing. And this really applies around the world. You really have to go all the way back to the financial crisis which really curtailed residential construction around the world. And we're still in that environment where supply is quite constrained, demand continues to be to be positive. And we're looking at an environment where the affordability question, which clearly comes up, which clearly comes up very frequently, you know, finding an answer to that from a policy perspective is something that's an ongoing discussion. From our point of view, we continue to drive great income from rental housing, but we know that that the real solution to affordability really relies on the supply side and that really applies around the world.

**Maddie Santoro:** Thanks for that. Mary, there has been a lot of attention surrounding the unprecedented investment in AI and its ecosystem. And one of the biggest challenges today for hyperscalers is power. Can you dig into why this is a challenge for them?

**Mary Flaherty:** Yeah, you really can't overstate how power hungry these AI chips and servers are. And there are several factors that are contributing to that into the constraints we're seeing, you know, first is actually within the structure of the semiconductor itself. So the silicon or the GPU that you need to run AI models is different and it makes these chips inherently more power consuming. So on a per unit basis, there's actually a need for

much more compute power and not just the power to run the chips, but to cool them while they're running. And then secondly, AI workloads are completely different than even just a few years ago. Prior to the emergence of ChatGPT, you didn't have these huge jobs running simultaneously on servers. Today you have multiple models that are being trained on the entire Internet, not just the text data, but image and video data as well. And this is happening just at an enormous scale that we've never seen. And then once you get training to a more quote, UN quote normalized state, there's a huge distinction between what it takes to simply train the model to get you a basic fast answer and then to get it to inference, which is what the goal is, which is where it's truly thinking and taking your query and anticipating future alliance questions. And inference as a percentage of total demand is growing and that is going to continue to drive an increase in compute demand as we move forward towards more mainstream adoption. And as a result of this, we have seen a huge pickup in electricity demand and the system is not quite equipped to accommodate the extra demand quickly. This just voracious appetite for electricity is the single biggest reason for the upward tick that we've seen in electricity demand growth, which essentially had been flat in the US for decades. So not only does it support strong demand for renewable energy because you know, that's a focus of these hyper scalers is, is solidifying contracts going forward, but also driving a renaissance for nuclear power. And it had led to a significant need for increased grid investment to enable these data centers, which not only have grown in size, but also have grown in geographic scope. So the scale and speed to which the demand has emerged is accelerating even. And as we get next generations of models and increase adoption, that's just going to grow. And just to put it in perspective, the power demand necessary to run a large data center has increased by over 5 1/2 times since a decade ago. On top of that you have entire campuses of data centers, not just stand alone. So while estimates vary, it is widely believed that the US is going to need to add the equivalent of three to seven New York cities of capacity to the grid over the next five years to meet future demands. Though power availability is and will continue to be the pacing factor for AI growth as there is only so much that the utilities can do to accelerate the build out. They're not going to sacrifice the stability of the grid, but the expansion is in everyone's interest. So they're going to do it as quickly as possible within that constrained backdrop.

**Maddie Santoro:** Thanks, Mary. Rich, let's go back to the credit side. Can you discuss the strategic rationale for combining public and private credit within a single portfolio?

**Richard Piccirillo:** Sure. So you know, we mentioned that real estate's the "topic de jure", I think that's what we said. The topic for portfolio construction and the guaranteed question is about public private because the expansion of private, you know, I've had decades in the public market. So my perspective from the public market is sort of an expansion of, you know, from 2 levels, 1 is a portfolio perspective and then one is sort of the bottom up issuer perspective. For the portfolio perspective, you know, we have a fundamental belief that a broader opportunity set maximizes risk adjusted returns. If you think about the portfolios we've been managing for years, the advantage of core plus versus core is just not

more risk, but in some ways better risk. You're having a bigger opportunity set whether it's in industries, buying industries than are represented by the sectors that are in industries or have industries that are not represented by the benchmark. You have more issuers, you have more asset types when you get into different types of securitization, more countries when you start buying smaller emerging market countries or different types of capital structures. And you know, when you're buying all these disparate types of risks, although it's unfortunately, you know, probably highly more highly correlated than any of us would wish, you know, there is a degree of not of less correlation. There's some sort of asynchronous spread moves and that's what you're trying to take advantage of and you expand that opportunity set when you add privates to a public fixed income portfolio. The second is really the bottom up issuer perspective. We often stress the competitive advantage of having research teams across all the sectors in the investment opportunity and public fixed income markets that drives security, selection, access, returns. And when you combine public and private and you're doing the relative value in the same portfolio, it's an extension of that where a single portfolio gains access to new and potentially better diversified opportunities. And an example of that is when you go to the private markets, you're doing direct lending and you go to sort of non sponsored middle market borrowers, there is direct origination. It allows for potentially more detailed underwriting, better negotiated terms, you know regarding leverage and disclosures and many of the things that we're focused on when you're looking at credit. Another kind of important part of that is way in which private credits are a natural extension of the opportunities to do with illiquidity premium in public markets. You know we're looking for a few basis points at times do you off the run treasuries versus on their own treasuries or we're looking for a few dozen basis points when we're looking at buying non rated securities. When you go to private markets, you're now expanding that opportunity set for illiquidity premium. You're measuring and judging the liquidity premium that you're getting to see if it's better than what's offered in the public markets. And often it is an example of that is you know you can get in over 100 basis points in certain private asset backed securities in the securitization market. And so those are all ways in which we're looking at it and looking to expand the opportunities.

**Maddie Santoro:** Thanks for that. Separately, the dynamics surrounding President Trump and the Federal Reserve are fascinating. And no need to get into politics here. But Rich, can you offer up your thoughts on how that might play out?

**Richard Piccirillo:** So, yeah, Jay Powell dodged that question yesterday because he had to, or I guess he wanted to. Fortunately, I can say a bit more than he alluded to, but I will repeat one of the things he said, which was there is ample research or evidence that economies operate better under an independent central bank. So when you get away from debates with mandate drift when a few years ago the Fed was focusing on some other things or the appropriate level of fed funds and current economic conditions. The primary importance for financial markets is that the most important central Bank of the world is free from short term political influence. It is believed to operate better and encouragingly, the market is

respond positively with public officials like ex Fed chairs or ex Fed members or members of Congress have, you know, responded to some of the events or suggested policies that may cause the Fed to lose its independence and means more dependent on sort of political opinions. So while Fed officials, as we saw yesterday, are continue to be focused on the pertinent debate between, you know, slowing employment numbers and those reasons for that robust economic growth, which has been a surprise to the upside. And inflation, while moderating for more spheres, is still a little bit more than the 2% target that the Fed wants. You know, there's been a more measured expectations for terminal fed funds, which is really in the low threes rather than the low twos, which has been suggested. But really two risks stand out and it has to do going back to kind of, you know, sort of narrow stimulus for the economy, monetary policy that's too easy. One of those is a new Federal Reserve chair, which will, you know, be coming in place this May with conflicting loyalties. Now, the committee is more than one person, but the Fed does stand on tradition and there's a deference to the chair. So it may be difficult for a majority of members to sharply disagree with a dovish chair that may be too dovish then warranted by the economic fundamentals. And the second is there's really a myriad of ways to apply additional political pressure to the Fed. And we've seen some of those ways over the last few months. And Congress could vote to change the Federal Reserve Act, have it more answerable to Congress or others. And that would increase the political influence and oversight. And both of those, in the market's opinion, would be negative outcomes. And so, you know, while fed funds futures are indicating, you know, one to two eases, which we feel, you know, it can be validly argued for and that's pricing to the market, the risk is that they use more than one.

**Maddie Santoro:** Thanks, Rich. Let's go back to real estate. And Lee, can you break down how demographic trends such as aging populations, urbanization and migration are shaping the investment opportunities in modern living sectors like senior housing, student housing and Co living?

**Lee Menifee:** Yeah, let me take each one of those in pieces. The first one around aging populations, we around the world, we have a growing number of people over 80. And if you think about that as being the important break point, most people enter senior housing. And by senior housing, I mean assisted or independent living facilities where you get help with daily care. I'm not talking about nursing homes and I'm not talking about sort of a recreational 55 and up, but really an area where people need additional help. We've seen that demand just structurally growing. It's been a very interesting segment because it was uniquely impacted by the COVID pandemic where we had the first demand drop in in in really the history of the of the poverty type. But then more recently, that demand has come back, first cyclically very strong and now we expect to see demand rates significantly higher. And that's in an environment where this type of senior housing product is just very undersupplied. To give you an example, in the US we estimate that over the next 10 years we'll need about 60,000 units of additional senior housing and the peak construction year ever was about 30,000 back in 2018. So clearly a very long term, this is more of a 2

decade call than it is a 2 year call. But we're also optimistic about the next two years to, to, to, to pivot to urbanization. We have an interesting dynamic where remote working and the ability to, to, to really do things without being physically present is it's, it's actually making city centers even more relevant than they are for that in person touch point. And so we're seeing demand for housing that is either proximate to the city center or right in the city center. And you can think about that particularly as it relates to younger renters, they very much want to be closer to where they work, but also where they want to see each other. And we see very strong demand for conventional multifamily, but also some emerging concepts like co-living, which we've seen demand for in, in Europe and Asia. And co-living is basically you're living in a very small unit and your kitchen may be down the hall, but this provides an affordable solution for people. And then finally, just thinking about migration and, and obviously migration is a, is a, is another topic worldwide too, where we have migration flows that have been very strong in the developed economies in Europe and in the US over the last few years. And, and, and those are clearly, clearly slowing. Nevertheless, when you kind of look down into the segment and think about, for example, student housing, there's still that demand for international student demand around the world. I think in the US that that's a little bit more of a headwind that it has been historically, but still international students make up a significant portion of particularly postgrad enrollment and, and the need to provide housing for that. But if you look across where those international students are going, they're going to places like Europe, they're going to Australia. And we see a very strong mismatch between, you know, the need for housing in places where the housing itself is very expensive. And so students need something that is both affordable to them and serves their purpose.

**Maddie Santoro:** Great thanks Lee. Mary, we talked earlier about the investment that's been made in AI. Can you talk about how the development of AI compares to prior tech cycles and how do you view AI compared to previous waves of technology innovation?

**Mary Flaherty:** Yeah, sure. I think this is going to come to no one's surprise. But the pace of both the build out and adoption is just so much faster than any technologies that that has come before. ChatGPT got to 100 million users, you know, more or less overnight. I mean, it was it was just it was very short period of time. And that compares with five years for Facebook and 10 years for Netflix. So the speed of, of innovation and improvement in these models also means that we have something new and better before we can even incorporate the last version into our, into our daily lives. And obviously there's hundreds of billions of dollars being spent to build out the infrastructure and it's just staggering in historical terms. So, but we're not, we're not at the point of mass adoption yet for AI. You know, much like with the Internet, it took a while before mass adoption happened and it became an integral part of daily life. And the big question in the market right now is just given the amount of the massive amount of CapEx that we're seeing, when is this all going to be monetized then it is already for, for the companies building out the infrastructure, but what about the companies building out the application further along the value chain? So all of this along with the valuations have

led to concerns about a bubble, but we would really caution against drawing too many comparisons to the dot-com era. You know, first with the Internet, we were building out fiber optic capacity in advance of expected demand. So companies built out the infrastructure and demand ended up being more linear than parabolic. So we essentially have, you know, too much capacity for a while and this led to, you know, corporate earnings, you know, falling, falling in that case. And so, you know, too much capacity, though over time it was there, there to meet the demand that grew over the decades. Today it's very different. Today, the demand is already here for AI and we can't keep up and keep adding enough capacity at a pace to keep up with it. Basically, you know, we've talked about power as a pacing factor. The amount of power that we can bring online will keep a lid on, on the growth of AI. And then we actually think that that's positive. So unlike the 1990s, there is a constraint on how fast the industry can add capacity in the face of already very strong demand. This should help keep supply and demand relatively balanced for a while, which is positive to keep the whole ecosystem healthy. It's also different just due to the quality of the companies that are leading the way today. It really stands in contrast to the late 1990s, early 2000s tech companies today are much more stable, much less dependent on the macro backdrop. They really are true secular growth companies. They have durable long duration competitive advantages. And in the last 25 years, the tech sector has just generated increasingly consistent and stable revenues, earnings and cash and free cash flow. And their margins are incredible. All of the margin expansion for the broader market over the last, you know, 20 years has really been driven by tech and communication services or Internet names. And this is very much in stark contrast to the .com when you had, you know, very low earnings and very high multiples. That's just not the case, not the case today.

**Maddie Santoro:** And your area of focus is in the large cap space and you just mentioned tech companies. Can you discuss how they're positioning themselves to reap the benefits from AI and generate returns on their investments?

**Mary Flaherty:** Yeah, it's probably easiest or most helpful to kind of break it down into enterprise and consumer. So enterprise is in the very early days of adoption. Most applications that are in use today don't have embedded AI, although all the software vendors are working on that. I mean, we've seen, we've seen Copilot and things like that pop up. And then you also have, you know, as, as they're starting to develop their own apps or, or, or offering, there's also new startups being created from the ground up to try and take share. But infrastructure software typically grows concurrently with the growth and compute usage. So just so we've talked about how much we expect compute usage to grow. So there is a big opportunity there, but over overtime the application layer is going to be where the long-term value is created. The problem right now is the market is having a hard time figuring out if these companies are at risk and if there's ones that will benefit. And just given the incredible pace of, of development, this really isn't all that surprising. It's really hard to keep up with. And we do spend a lot of time thinking about this and something we watch very close, but you've seen the software segment overall come at the under pressure

because of this, this big debate that's happening on the consumer side. We will likely see a handful of new apps created, but a lot of them are probably going to be just new versions of existing applications. But we're going to see changes in media and the creative process, how people research information. And, and we believe that platforms with wide distribution networks are going to benefit. And especially those like consumer products companies with great reach like a Google or a Meta, they own and operate their own frontier models that are already helping consumers and advertisers meet their goals. But going forward, they're going to be able to create, you know, for an example, you have one advertising campaign, they might come up with 100 different versions of an advertising campaign that will allow a customer to optimize where they place this and who they're targeting. And it's just, you know, the options that it's going to provide are, are just staggering. But there will likely be a bifurcation between how enterprise and consumer plays out, just given how enterprise is much more complicated under the hood. Consumer is really about sale and adding vertical integration across multiple parts of our lives. So, you know, the two biggest players within the sorry, the biggest players within the infrastructure layer today are already reaping the benefits. They're very well capitalized companies. They're funding their own growth from a position of strength. And you know, Google, Meta, and others, they all have incredibly high EBITDA margins in all their businesses and they're driving innovation, using AI to drive higher, higher Alis in their core businesses, which is being poured back into, into building out their infrastructure and improving technology. So it's a very, very positive cycle.

**Maddie Santoro:** Thanks for that, Mary. Let's go back to real estate and Lee, what themes and differences are you seeing across regions for residential real estate and what does affordability really mean?

**Lee Menifee:** Yeah, we're hearing about affordability everywhere. And you know, the meaning I think is going to get pretty, it's going to become meaningless by the end of the year with the politicians sort of embracing the term. But let me tell you how we define it. We define it essentially as a household that is able to afford housing with about 30% of their income. And that's a decent global definition. It varies in some places in New York, you would fully expect to have a higher portion of your income dedicated to housing. But that is what the threshold that we look at and we've seen that threshold be eroded over over the past couple of decades with housing become more and more of a burden in terms of the regional investment opportunities that create it really is it, it really is different depending on depending on where you are. If I turn to Asia for a second, you know that supply is just not keeping up. In Australia in particular, even in Japan, where we're demand for housing is inhibited a little bit by population growth. There's still strong growth in some cities and historically supply has been able to keep up. But the combination of, you know, higher construction costs and some, some, some resistance means that even there we have increasing supply barriers. And I guess the, the other thing to mention in, in terms of Asia is sort of the, the on, on the ageing population side, we have a pretty significant portion of older seniors that are able to afford senior housing, which is an upscale product in the current model around the

world. Think about places like Singapore, Seoul, Melbourne, all of which have very good senior demand drivers. In Europe, it's a little bit different. And I would think that really our focus there is a little more on the operational side of living. And let me explain, institutional ownership of multifamily housing in Europe is actually pretty low. You have a lot of private owners, you have a lot of local owners. But in terms of a truly institutionally managed community, they're still at an earlier stage relative to parts of Asia and definitely the US, where your ability to operate to offer an operational advantage of your competitors is, is a lot more difficult because there's just more institutional expertise. And so we look at ways to improve the platform, capitalizing on demand, maybe building as well. And I'm, I'm really thinking about serving the needs in, in an environment that really isn't as used to institutional housing, but we've seen how it can improve margins and value. And then finally in the US, when you think about what people can't afford, first of all, multifamily affordability in parts of the US is actually quite good. Now we had a cyclical run of supply delivered in the southern part of the US and it's actually a great time to be an apartment renter. And it's not a wonderful time to be an apartment owner there. And I guess something to think about there is you can have a structural supply of housing and also at the same time have pockets of overbuilding and individual segments. Our outlook for that region is much stronger as a decade ends. We're already seeing construction rates fall by 50/60% in many of those markets. But I think the real opportunity here is more larger communities and maybe single family or townhouses that are purpose built for rentals. And that really dovetails best with the demographics in the US around younger households that do want to live in a format where they have access to good schools and a yard, but aren't necessarily either able or interested in doing a full ownership. It's an underserved part of the market and one that screens very attractive to us.

**Maddie Santoro:** Great, thanks. I think we can move on to kind of risks and risk management and I think we can wrap our discussion on that topic. So each of you likely has your own set of concerns about where the markets are headed and some of the challenges we may face as the rest of the year plays out. Can you discuss what corners of the market you're concerned with and how you might try to mitigate some risks in your portfolios? Rich, we can start with you.

**Richard Piccirillo:** Sure, Maddie. Thinking from a big picture perspective within fixed income, you know, starting with rates, we mentioned the potential for looser monetary policy. We have loose fiscal policy, especially leading up to midterm elections. And then there's this potential for lagged inflationary pressures with higher import pump prices as companies pass through some of those tariffs that they had absorbed in their margins prior to this year. And so that could put pressure on the long end that could cause more term premium, the yield curve to steepen if you get inflationary pressures. And so that would cause us to underweight the long, long, long and or three-year bonds from a convexity perspective. Just going back to real estate for a second, prepayment speeds could increase on higher coupons if you get some of these government initiatives to lower intermediate rates. If they do sort of

attack that affordability problem and you and you could get faster prepayments, which would be bad for higher coupon mortgages. From the credit perspective, you know simply there's a narrow risk reward, trade off spreads are pricing good news in and see if you get a shock of bad news that could cause some widening and you know going to specific and back to data centers. It is the big investment opportunity at the moment. We have and expect to invest some way shape or form, but we're being cautious right now because there's many associated risks. One would be the amount of debt that you're getting and it's expected to come in a variety of forms. It's been seen in a variety of forms, whether it's bonds, leases, vendor financing, securitizations, both in public and private markets. And I bet we'll find some new type of security that we didn't know existed or could be created, you know, that will find its way to sort of finance this build out. Then there's an associated declining free cash flow and greater leverage in some of these companies when they're spending all this money. There's the obsolescence risk with the microchips, the useful lives, the power requirements. And so that would cause you to be careful about, you know, where and how you're investing in these data centers. And then, you know, Mary was talking about, you know, monetization, getting paid for this 5 plus trillion spend over the next few years. You know, and there's, there's likely to be sort of dispersion of companies that can, you know, sort of well absorb that and profit. And those that we may be concerned about how much money they're spending Rev relative to the revenues that may be taking it. So those are sort of the bigger topics that we're thinking.

**Maddie Santoro:** Thanks, Rich. Lee do you want to go next?

**Lee Menifee:** Yeah, I would go with I think 3 risks that are that are on our mind. The first one is sort of broadly on the regulatory side. I think there are a lot of demand side proposed solutions to what's essentially a supply side problem in housing. And so whether or not that be the Fed prioritizing buying agency paper, whether or not that be the proposals around single family home ownership, any of those areas are all, I think ones that target the demand side. And something that will, you know, certainly have to navigate and understanding those regulations. Also, rent control is an is a growing tool used by local regulators in, in the US and Europe as well. So one that, you know, we really have to understand and navigate. The second one that Rich mentioned would be the data center space where we do have in the sector over the near term. But understanding that there's a lot of binary risks in that sector, Rich mentioned obsolescence and understanding how to price that best. And really what that comes down to is probably more location than building design. Because, you know, 10 or 15 years from now, it's unclear what your next tenant will need. And then the other binary or very big binary risk is the tenant itself, which these are, they're sort of a concentrated group of tenants that that are occupying these. And you know, many of them, as Mary mentioned, are very, very strong cast positions. But regardless, it's highly unlikely that all of them do well in this space. And so it's difficult to know, you know, tenant diversification is about your only mitigant on that one. And then and then finally, I guess I would just focus on the cost side of real estate with wage growth being an increasing role in real estate. So we're comfortable with the weather demands, tenant health is quite good across really all, all

property types. But that operational side becomes even more difficult whether or not it is power, which power costs have gone up for, sometimes related to data centers, sometimes unrelated. That's one to manage and also wages and wages, when you think about the workforce and a lot of real estate, some of it is low skilled and very highly in the US in particular filled by people who have immigrated to the US. And those wage pressures may grow over the next few years as well. So a lot to navigate there on the cost side as well. And I guess it's really where that operational expertise becomes of the most importance.

**Maddie Santoro:** Thanks. Mary, do you want to wrap up with equity?

**Mary Flaherty:** Yeah, you know, equity markets don't like uncertainty and we certainly got in 2025 as it seems to be a much more unpredictable year than many in recent memory, especially from a U.S. policy and political standpoint. But the markets largely were able to kind of shrug it off. And so I think the markets have gotten used to unpredictability. And just given how this year has started and anticipation of some of the things you've talked about, some consequential events that are going to happen this year, we really don't think that that level of unpredictability is going to change. On the consumer side still is facing lingering inflation and some health insurance cost increases. And even though they may be partially, these partially offset by tax cuts, you know, they're still feeling the pinch. The Supreme Court has still got a rule on tariffs. We've talked about change of leadership at the Fed and the midterm elections. And these are just a few of the many factors that could help drive the US economy and markets this year. And obviously, from a, you know, a thematic perspective, the big thing is AI. So we're very closely monitoring the dynamics of the AI infrastructure build out, watching for any signs of slowing or cracks in the story. We're not seeing any right now, but we're constantly monitoring the environment for that. So, so, you know, despite all the unpredictability last year, corporate earnings remained strong and that's ultimately what's what driving would dry stock prices. So all the fears about you know the risks posed to revenue and to earnings growth from fiscal policies didn't happen and both the consumer and the broader economy continue to be resilient in 2025. Whether the market shrugs off the unknowns again this year is yet to be determined. So as bottom up fundamental stock pickers, we control what we can control and we do that by sticking to our disciplined investment approach. We are always focused on investing in high quality growth companies that have durable competitive advantages whether they are new emerging growers or more established companies that are going through a new phase of growth. We think we believe that these companies, you know the companies that we have in the portfolio can capitalize on multi year opportunities that are provided to them by unique product and innovation. They're all market leaders. They are all supported by you know very strong competitive moats. And while it certainly doesn't hurt, they do not need a robust economic backdrop to continue to grow. So just you know, we are laser focused on the fundamentals and we're confident that we found companies that can generate above average revenue in our earnings growth despite the economic backdrop over our investment time horizon.

**Maddie Santoro:** Great, thanks all for that. We have a few questions from the audience and I think we have time for one or two. So I'll kick off with that. Lee, this is for you. So how much have multifamily cap rates decreased over the last several years and what if any recovery do you expect or will increases be based on rent growth and NOI?

**Lee Menifee:** Yeah, thank you for the question. I'll assume that because we're asking about cap rates, it's probably related to the to the US. So I'll just I'll answer it from there. In the US we've seen cap rates which is, which is just a multiple for real estate. They expanded from the low, the low 4% range and now they're up a little above 5%. We think that that's an appropriate spread, we think that's about right over the long term. And so the second part of the question really does answer the first part, which is that the valuations in that sector are going to be driven much more by rents and net operating income. So our expectation is that the repricing has been done. I think that there are sectors that have the potential prospect for a little bit of cap rate compression. And I also think that right now we're seeing an interesting dynamic with multifamily that's taking quite a long time to lease up that really. And our view provides some opportunities on the equity side, you can buy properties below replacement cost. But also on the credit side where we're seeing opportunities to lend to properties that are probably very good quality, but maybe don't qualify for a loan from one of the agencies like Fannie Mae or Freddie Mac. And providing transitional lending to those types of properties that are still in lease at a very good spread to conventional loans. So there's, there's quite a bit to do in the sector. Some of it is more just straight up development based, but other parts of it I think, you know, just improving the operations and also solving for what is a tough refinancing environment for people that took out loans say 3 or 4 years ago.

**Maddie Santoro:** Thank you for that. I think we have time for one more so Mary, this is for you. Everyone is focused on infrastructure build out. What happens next and what are the impacts more broadly?

**Mary Flaherty:** Yeah. I mean outside of technology, companies are investing heavily in AI since it can streamline processes and drive efficiencies. A lot of how we are will experience it will be relatively mundane. You're going to see not that it doesn't affect everyone and it isn't positive, but customer service improvements and also personal assistant type usage. But the big question is what happened beyond the tech companies and how this gets put into practice. So, so many companies are sitting on really a treasure trove of customer data. And so how they will use AI to analyze that day and come up with targeted products and services is really, we're just finding that out now. I mean, just the whole, the most famous story is the one with Google's DeepMind alpha folds and the mapping of proteins. So with the, the applications within healthcare and drug discovery, it's just, it's staggering to think about how so you know, what we, what can happen there and how it's already helps to just really help the medical industry move forward in that

regard. But not only that, just, you know, with health and personal insurance, all the data, the health data on, on all their customers, energy exploration companies have data logs from every well they've ever drilled for the last 20 years. How do they use that? So, you know, obviously in a declining market for oil, how do they use that to optimize even more and, and be more targeted about how they drill? Walmart, Costco, most retailers not only have tons of customer spending data, but they're also using AI to streamline the checkout processes in stores. And so the ones that can use that, you know, you can just basically walk out with your basket and you got to accept your credit card. I mean, this is going to be something that's going to happen everywhere down the road. So, you know, the seed of the adoption is just happening well beyond what we had expected and we knew it would be big, but the pace is staggering and we're, we're just in the early beginnings. So there's so many possibilities and it's just really exciting to think about how it's going to play out and we'll be there to witness it.

**Maddie Santoro:** Great. Well, I think this is a good place to stop. I'd like to thank Rich, Lee, and Mary for joining and sharing their expertise today and everyone on the line for joining what was definitely a timely and far-reaching discussion. If you're interested in discovering more of PGIM's insights surrounding these topics and many others, please visit [pgim.com](http://pgim.com). Have a great day and take care. Thank you.

**END**

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