PRESENTER: Parit Jakhria is head of long-term investment strategy at the Prudential Portfolio Management Group and he joins me now. Well Parit what are the main factors that drive asset allocation in the long term?

PARIT JAKHRIA: The three main factors driving asset allocation, I would say it's very important to understand the long-term secular teams as well as regime changes in the markets. You also need to have a pretty good understanding of where we are in the business cycle and most importantly we need to understand the valuation of asset classes. Which themselves are impacted both by secular teams as well as cyclical teams. Taking the secular teams for example we all understand that economic growth is a big driver of asset returns and hence we need to understand where the current and future economic growth is going to come from. That requires an understanding of demographics, the capital and labour markets, savings and investments as well as technological change and how it's going to impact productivity catch-up across the regions. That allows us to build a picture, a very detailed picture of the asset class return expectations across different asset classes and geographies, and that leads to our asset allocation decisions.

PRESENTER: And you mentioned cyclical trends there, could you unpack that a little for us?

PARIT JAKHRIA: So, yes, as I said there's two main factors: cyclical trends and secular trends. For the cyclical trends, the biggest factor is where we are in the business cycle. We know that we are 10 years away from the previous cycle. That in itself is not the worry point but we need to think about the deciding factors and where different regions are as part of the economic cycle. So, for example, UK outclass has mid to late cycle, US would be probably further towards the late cycle, and US markets are ones where we are most closely watching the kind of corporate and household debt to see where they develop as well as any inflation indicators.

On the other hand, secular teams are those which are more prevalent and take a longer time. One example would be, you know, it's perceived wisdom that the developed world is in the West, and while that has been true for the recent past, if you look back in time, it's surprisingly not the case. In fact for much of

recorded history, the centre of economic gravity was very closely aligned for the centre of population gravity and it was around the Middle or Near East for a number of millennia. In fact it was only until the 19th century that it started moving westwards. And that was due to the impacts of the industrial and scientific revolutions in the West. Together with a lesser known factor, there was a pretty big civil war in China around the 19th century. It's known in the history books as the Taiping Rebellion, and it resulted in the real GDP per capita across the entire population of China dropping by over a third. So was a pretty disastrous time for China. It was pretty disastrous time for their foreign policy and a pretty beneficial time for Europe, which meant the centre of gravity moved very far westwards.

It was compounded by the rise and ascendancy of US in the first half of the 20th century and that was the peak in terms of how far west the centre of gravity went. Since then it's been interesting to note the secular team has actually been in the other direction. So post the Second World War, the collapse of the European empires, together with the quick build of the Four Tigers in Asia, and in recent decades of China itself and Greater China, has meant that the shift has been equally large in the easterly direction, and that continues today. And this is before the Made in China 2025. This is before the structural links from China to Africa taken into account, so there is a lot more to come.

PRESENTER: Well, as the shape of the global economy changes in the long term, are there any new asset classes or markets that you're starting to look at now?

PARIT JAKHRIA: Absolutely. So I mentioned Africa. And that's a pretty exciting place for a number of reasons. In fact, it's one of the few reasons where there are almost so many reasons to be positive that you don't need all of the reasons to work out to get pretty good returns. So the biggest positive factor for Africa is its demographics. It has a pretty young and growing population. The ratio of working age population to dependencies is pretty good and it's significantly better than the West and even better than large parts of Asia. At the same time, it has abundant natural resources, and it has a big improvement in infrastructure and technology that beggar's belief.

So take infrastructure, for example, as part of China's belt and road initiative, there is a big upgrade in roads and railways. Just taking East Africa as an

example, I would say arguably it's the biggest upgrade in railway infrastructure since the British built the railways circa 1900 in East Africa. If you take in other parts of the economy, banking for example, given the vast surface area of Africa, 10 years ago most African countries were struggling just to get regional branches in place and cover all the different towns within the country. Let alone telephone banking and telephone lines across the entire country. That's all been swept aside by the emergence of 3G networks and Pan African telecoms providers such that you have Pan African networks and you go straight to mobile banking. So that's three generation banking in less than a decade, and it's something that took over 100 years in the West. So the potential for catch up in Africa is huge. The starting base is pretty low and it's pretty exciting times.

PRESENTER: Well you're mentioning technology there. I mean how does that affect how you're looking at asset allocation?

PARIT JAKHRIA: That's a pretty difficult question. Technology is pretty challenging to model, to think about. For a number of reasons: one is that the human knowledge is vast and that there are a huge number of areas where technology is developing. So it's almost impossible to man mark each area. So you need to think about it in aggregate. Secondly, the pace of change is increasing, if that's even possible, and that's because of just the vast amount on research as well as the size of the human knowledge. What we can do is think about thematic pieces, so there's two big themes coming out. One is there'll be some asset classes which are negatively impacted. So for example long-term illiquid asset classes are the worst impacted by technology; a classic example would be retail property.

So the high street retail in the towns and cities across England, across UK, have been pretty badly impacted and will continue to do so as the emergence of online shopping comes in, and that's a pretty disruptive technology. On the other hand, there are pretty positive impacts. So for example I mentioned Africa and Asia, the scope for productivity catch-up is huge in some countries and technology will only speed up productivity catch-up. And the third factor is something which we're still kind of thinking about. Which is in the last 100 years I would say or maybe 200 years, the edge of the productivity frontier has been very much in the West. And there is a chance that going forward Asia will not only be catching up but it will be

helping improve the frontier itself. Now that's a pretty controversial point and requires a lot of debate but it's certainly one we cannot ignore.

PRESENTER: We are out of time. We have to leave it there. Parit Jakhria, thank you very much.

PARIT JAKHRIA: Thank you Mark.