

## Video Transcript

### In conversation

HSBC's Annabel Spring talks investing with Jenny Johnson

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### Annabel Spring

Hello and welcome. I'm Annabel Spring, CEO of Global Private Banking and Wealth at HSBC. And I'm here with Jenny Johnson, president and CEO of Franklin Templeton.

Franklin Templeton is a global asset management firm with over 1.5 trillion in assets under management. And Jenny's career here spans over 30 years, and she's been a key driver of the recent programme of transformation, growth and acquisitions. Her many achievements have led to her being named last year as one of the world's 100 most powerful women.

So, Jenny, thank you so much for joining us. Really appreciate it.

### Jenny Johnson

Oh, wonderful to be here. Thanks for having me.

### Annabel

Been an interesting year, though, right? So last year, really tricky: geopolitics, COVID-induced supply shocks, market uncertainty. There's been an awful lot of comments around globalisation. You're a global firm. We're a global firm. How are you thinking about the future of globalisation and what it means for the investment thesis?

### Jenny

Well, I mean, certainly this past decade has been globalisation on steroids. And we all thought that it was going to continue that trajectory. And then I think a couple of things have happened: I think COVID and the supply chains – you know, everybody learned that old adage of the chain is only as strong as its weakest link.

And so I do think that there's the reality of this diversification of supply chains that's going to happen. Look, globalisation is not dead. You can't stop all the technology innovation that's happening. But it's certainly going to be different.

**Annabel**

Yeah, I think we're seeing some real opportunities. We work with a lot of businesses who are looking at China plus one, in Thailand, Vietnam, Indonesia and actually Mexico as well. So I think there's some interesting things coming hopefully as we look at that, at the growth in those regions.

**Jenny**

Well, I mean, you just look at, you know, China and they're opening up now. So, I mean, I think China's story is going to be really interesting. Plus, they're very focused on building their domestic economy.

I think there's going to be interesting investment opportunities there. India, of course; I've been going to India since, you know, 2000, and I have never felt the kind of optimism in India about the opportunity of the next decade there. And then, of course, as you mentioned, Vietnam, Indonesia, other places where there's the potential as the diversification of these supply chains happens, that other markets can pick up some of the activity.

**Annabel**

That neatly brings us to Asia. You know, as you look at these opportunities in Asia a little bit more deeply, particularly with that opening up of China theme, what are you seeing in Asia? And then what are you thinking about the implications of that opening up for the rest of the world?

**Jenny**

Well, I think that many of the countries that rely on China and have been hurt by China's lockdown are going to get that kind of stimulus. So I think you're going to see some interesting opportunities there. You can't think of it as a regional investment. You almost have to think of it country-by-country here.

This is where I like active management – it's these times of uncertainty that actually open up opportunity for active management. I mean, you see some interesting things like Japan is seeing inflation. You know, people have lived their whole life without having inflation in Japan and they put their money in cash and it became more valuable.

Now, they're going to pull it out and spend it. They're going to pull it out and invest it. So, I mean, I think you're going to see some changing behaviours. And then, you know, the demographics say, you know, they say there'll be a billion people in the next decade that enter the middle class and something like 87% of them in Asia.<sup>1</sup>

**Annabel**

So the other thing that's changing the shape of the world while we're at it is technology. You've got a fintech incubator in San Mateo. And then one, I think you've just opened in Singapore.

**Jenny**

Correct, yeah.

**Annabel**

I'm always curious, what are you seeing for those companies that you're working with and what does that mean for the sort of investments that you're making on behalf of clients?

**Jenny**

Well, I think it's a really great time to be actually in our business, in wealth management, right, where the technology is going to, one, enable the unlocking of investment opportunities that the average person couldn't get access to in the past. I think AI is going to uncover opportunities. You know, I would say to our team, you know, at Franklin Templeton, that we have to be as good as Google, our investment people have to be as good as Google, at leveraging nontraditional sources of data to gain insights.

And then blockchain, which I've been a big fan of – it's the fact that it takes out a lot of the frictional costs in a transaction.

For example, in our incubator, we have a company that does fractionalised farmland, right? So they buy – a lot of farmers are asset-rich and cash-poor. And so if they need to invest equipment, they now can sell off a little slice of that farm. And you can own – the average investor – through, say, tokenisation, will be able to own pieces of multiple farms. So you get a diversified portfolio and an uncorrelated asset that you never had access to.

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<sup>1</sup> Developments and Forecasts of Growing Consumerism, European Commission, September 2018

We've got another company in our incubator that uses NFTs to help artists – so nonfungible tokens – to help artists capture a greater percentage of the economics.

Today, people own these – they're in private equity funds and others – music. But as you can now, we'll be able to tokenize those things and that will become part of an individual's investment portfolio. So I think it's a really fun time to be in our business because the enablement of customisation that technology is allowing.

**Annabel**

I look, I think it's fascinating because what it will also allow is a much more diversified portfolio and access even at the retail end for that sort of asset class, which at the moment is not the case. And, you know, we're always looking for ideas in that space to really sort of democratise investment. And I think that's a great opportunity to do it.

**Jenny**

Definitely. I think that the blockchain is going to be a real catalyst, an enabler of that. And you're exactly right. It allows the average investor to actually get what the ultra high net worth investor has always had access to.

**Annabel**

The one other thing that you touched on, which I think was really interesting, you said 'data', and that's a key word in investment at the moment because with AI, with big data, suddenly there is a lot of different sort of investments themselves and ways to invest. You want to just talk a little bit about the sort of investments that you're seeing? Because we're seeing some fascinating things as well.

**Jenny**

So I think the first level is taking the traditional investment data and looking at it really with different lenses to understand the true risk factors. I think the next level comes down to gaining insights that will help you understand when maybe the next best thing is coming.

And then the example I like to give, because I used to be a consumer lender in my early career days, and when we did auto loans, we basically looked at six things. We looked at your debt to income, your credit score, you know, how long you were employed, how long you lived somewhere, and your payment to your income. And it was very predictive about whether or not you were going to pay your car payment.

We have a company that looks at micro signals and they have found that if you don't capitalise the name of your employer and these three other micro signals exist, you're 25% more likely to charge off. Now, a traditional lender would never think capitalising the employer was a relevant piece of data.

But if you can launch the AI to kind of go in and try to find those correlations, I think we're going to start to learn that there's other unique ways in which you can view investment opportunities. And so I think it's really important, because if you're still doing your lending decisions based on the old model and your competition is doing it on the new model, you're going to be left out.

**Annabel**

No, absolutely adverse selection on that. And I couldn't agree more with you with the power of data and technology. What we're able to show our clients now in terms of scenario analysis through their portfolios, it's actually one of our most powerful tools to talk to clients about the benefit of diversification.

And, you know, if this happens, then this happens. And then let's look at how your portfolio reacts. And I think that's critical. And that's what our investors are now expecting.

One thing that we haven't talked about that has been fashionable over the last year is fixed income. So, you know, we have some clients going short because they want to stay flexible. We've had some clients going long to capture yield. We have some clients going emerging markets to get a little bit more yield – take advantage of maybe a stable US dollar, we'll see.

You're a fixed income manager across the continuum. Within fixed income itself, just as a timely question, where are you seeing the interest?

**Jenny**

We have three very distinct managers that actually have slightly different views on how aggressive the Fed will be, how transient or not inflation is. So I'll give you a bit of my view.

I do think that the inflation in the US is turning out to be stickier than maybe the Fed had indicated initially. But so what we see is clients in – they tend to be more short duration. We're seeing big flows into money market funds and short

duration. You do see some starting to extend out from the curve, but I would say the majority of the money is still waiting.

People are staying still pretty conservative and pretty short. But of course – and emerging market debt, for exactly that reason; it tends to be cheap. All of those positive tailwinds that we talked about in emerging markets and the dollar has made it such that those currencies, especially in local currency debt, that you'll get the benefit of at some point the dollar turning over. We'll see.

**Annabel**

Obviously you're a very senior woman in business. In fact, you are one of the most powerful women in the world, according to Forbes, which is fantastic. What would be your advice to young women leaders?

**Jenny**

You know, I guess I am – advice that I give to anybody on leadership, I call it my four Ps. So people, passion, purpose and persistence.

And the first, people, is just surround yourself with the best team you can have. As you know, surround yourself with great people, and it's going to make your job a lot easier. Passion: love what you do and you'll never work a day in your life. And then purpose: describe what you do in a purposeful way, and then people can follow on that.

So we talk about, and I'm sure you do as well, that we help people achieve the most important financial milestones of their lives. And, you know, that's a really admirable thing to be doing. And I get up every day fired up about being able to do that.

And then finally, persistence. You're going to fail at times. And, honestly, the difference between people who are successful or not, I think, is how they handle failure and, you know, getting back up and dusting themselves off.

So I would say to any woman: don't be shy. You know, this is a great business to be in. It is a business that really helps people, and, you know, follow your passion.

**Annabel**

I think that's great advice. And I absolutely agree with your passion because helping people with their financial lifestyles and their financial milestones, as you said, really helps them with their lives. And that's why I'm proud to work in this

industry, because we facilitate people's lives. We make their lives better. And that's that's what we're here to do.

**Jenny**

Absolutely.

**Annabel**

So thank you so much. It's been such a pleasure.

**Jenny**

Thank you very much. It's been wonderful to be here.