What is the biggest challenge in your asset class over the next 5 Years? ANIK SEN: The single biggest challenge for equities over the next five years is rising input costs. Companies are facing shortages in terms of labour, as well as rising commodities and energy prices that are really crimping their margins. The opportunities that we find in all our offices, in all out equity teams around the world by dint of seeing so many thousands of companies, is we're screening for companies with strong management, financial flexibility at the right valuation. These companies have the pricing power and the skillsets that we think make them globally competitive. STEVE COOK: Both liquidity and regulation are challenges for our market. They're actually interconnected as well. The increased regulation that we have seen amongst the investment banks has actually reduced the ability of asset managers like ourselves to trade this ever growing asset class. The reduced liquidity due to the investment banks and increased regulation, it is a major challenge for the asset class. The opportunity is this reduce liquidity creates opportunities within the valuations; in other words certain countries will overshoot in terms of valuation versus their fundamentals. Likewise some countries will undershoot in terms of valuation, which is created by this relatively scarce liquidity in the market. And that's where active managers can capitalise on those opportunities. **How will the flow of assets to active and passive managers changer over the next 5 years?** STEVE COOK: Emerging market debt at the moment is very much dominated by the active management community. There is a small ETF allocation at the moment, which is round about 1%. We expect that to grow, but we still believe given the complexity and diversity of the asset class across 70 different countries, high yield investment grade, US dollar, all the way through to local currency. We don't think that asset class is very easy to replicate in a passive manner. So whilst the passive community will grow, we still think the asset class will be dominated by active managers. ANIK SEN: Well over the last few years flows have been predominantly towards passives for a number of reasons. Whether it's performance, or whether it has been the QE area where smart beta and passive investing has really been the flavour. What we do detect is that flows towards passives are now waning, and that is because the markets are now much more nuanced, selectivity is key, and I think asset allocators understand the alpha generation will come predominantly now from active management. **Where are you seeing opportunities and why?** We see opportunities in every sector around the world in terms of stock selection. But in terms of broader asset classes we're excited about opportunities in Asian equities, also in Japan. Another example would be in high end technology, where there are unique companies around the world that are creating value for their customers. We think these are winning companies that are creating tremendous shareholder value over the next few years. STEVE COOK: On a 12-month view for us obviously the asset class is extremely diverse, to narrow that down into one particular country or one particular subset is quite challenging. But we still think the greatest opportunity is in the local currency debt market. We believe that the EM versus DM growth differential will continue, and whilst we are having a period of increased US dollar strength at the moment, we think that's a short-term phenomenon. So we believe that once we see the weakness of the US dollar coming back, then EM currencies will do very well, and the EM local debt market will follow suit. **How important is ESG to your investment process?** We believe that ESG has, certainly within PineBridge, has always been embedded within our investment process, so it's always been an important part of the overall investment rationale for our asset class. Obviously ESG at the moment is so called very trendy at the moment; everybody seems to be focused on it. But for us it needs to be a natural component of your investment process. So for us at PineBridge it will continue to be an important part of the investment process, and we don't believe that will change materially over the foreseeable future. ANIK SEN: I very much agree with Steve. ESG has been core to our investment process for some time. For us governance is critical in terms of stock selection, and we also think that the SE and the S parts are connected with the G; in other words environmental and social have to go hand-in-hand with governance. For us it is about sustainable profitability, and we think that an analysis of good governance and analysis of companies that are creating shareholder value through good governance is absolutely key to our process. **DISCLOSURE STATEMENT** PineBridge Investments is a group of international companies that provides investment advice and markets asset management products and services to clients around the world. PineBridge Investments is a registered trademark proprietary to PineBridge Investments IP Holding Company Limited. For purposes of complying with the Global Investment Performance Standards (GIPS®), the firm is defined as PineBridge Investments Global. 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