A Guide to Global Fixed Income in 2024 – With Emmanuel Roman, CEO of PIMCO

Simon Brewer

If you are a European and have spent the majority of your career in the UK, it might seem very logical choosing to move to a destination which has 277 sunny days a year, particularly as a bleak January envelops us here in London. But you may only make that move if you are offered a really significant role, such as the opportunity to be the CEO of one of the world's largest fixed income managers, the $2 trillion powerhouse that is PIMCO. So from Newport, California, where it's 07:30am in the morning, and I'm told it's raining, Emmanuel Roman, good morning and welcome to the Money Maze Podcast.

Emmanuel Roman

Good morning. Nice to see you.

Simon Brewer

Well, you've also just told me that this is the first podcast you've ever done, so I'm doubly thrilled that you're here today.

Emmanuel Roman

That's right. That's right. I was always hoping I would get interviewed on one of those football podcasts, but no one has asked me to do so. So this is the first one.

Simon Brewer

Well, as I have found out, you're an Arsenal supporter, so maybe you'll get a chance at the end of this season. But we might come back to that. Manny, before we discuss PIMCO and the outlook for the many segments which exist under the heading of fixed income, could we laser in on you for a moment? I see that you and I, who had never met until a few minutes ago, were both born in August 1963. I have to ask you, which day in August?

Emmanuel Roman

27.

Simon Brewer

Okay, so it's a few days after me, therefore I am your senior.

Emmanuel Roman

You are my elder.

Simon Brewer

So you were born in Paris. I read your parents were both artists, and you elected to study mathematics. Just share with us what your thinking was at the time.

Emmanuel Roman

It was a very different world. My father was a big intellectual, and I knew nothing about finance, but I knew that being an artist was not a very wise choice. So I thought I should try to get a job where I could actually earn a living, and I thought I would end up teaching in a university or something similar. And life took a different turn. But I grew up with a house full of books. We had no car, we had no TV, we had no radio. My father listened to a lot of classical music. It was very different in a good way.

Simon Brewer

Yeah. And you studied at the University of Paris and you do your MBA in Chicago. And I just wonder what did each of those experiences arm you with?

Emmanuel Roman

Paris was a strange place because, if you remember, I started college in 1981. And 1981 was the beginning of the presidency of Francois Mitterrand, the first socialist president in the Fifth Republic. And very quickly he managed to nationalize all the banks, and for 11 months have quite a left wing, some would say crazy, economic policy. And then the franc became so weak and they had to raise rates so much that things changed, and they changed quickly, with Jacques Delors, who just passed away, becoming finance minister. And they had to learn how to balance a budget and all of these things. So what I remember is sort of looking at what was happening in the economy and saying, "This is all crazy." Now, there were a lot of really good things about the presidency of Mitterrand, but economic policy was not one of them. And then it became pretty mainstream by 1982, and it became sort of a center, left, Keynesian economic policy. And that was the end of it. But that's probably the memory that I have back in my mind. And then in 1986, the Bérégovoy government unwound the whole thing and privatized all the banks and all the big companies again. So it was a total round trip.

Simon Brewer

Yep. Yeah. Bouleverser perhaps is the term, is it the French economic policy under Mitterrand completely turned around. But then you get your American education as a Master's at Chicago. Again, a great mathematical sort of school.

Emmanuel Roman

But it's not what happened. It's not what happened. What happened is I went and I thought about doing a PhD. And then I stumbled into Goldman Sachs by sheer luck. I didn't know what Goldman Sachs was, but they offered me a job. And I thought, why not? I'll do it for one or two years and go back and finish the PhD at Chicago. And Goldman Sachs turned out to be a really good place.

Simon Brewer

GLG though, what was the particular, if there was something particularly, you took from that?

Emmanuel Roman

It was a very different world. I went there because I was friends with the G and the L, Noam Gottesman and Pierre Lagrange. We had all worked together at Goldman Sachs, and there were some things to work on. We went public at the height of the market in June 2007 on the NYSC, and then lived to regret it during the whole 2008. And 2008 was incredibly tough. We had a 20% ownership with Lehman, and we got banged up with the Lehman bankruptcy. And to this day, it is my most excruciating business experience. And we had to unwind a lot of exposure we had. The netting didn't work quite the way we thought it was going to work between various entities, and 2008 turned out to be survival. And then the business got better. And then by 2010 we merged with Man Group and then things were smooth sailing after that.

Simon Brewer

You joined PIMCO. And I think it'd be fair to say that your expertise had been in equities and alternatives, slightly less in fixed income. So I suppose that as I had studied you, the question was, first of all, what drew you to this opportunity? But equally, what did they think you offered?

Emmanuel Roman

Well, I think you had a situation where they needed a new CEO. I had done some fixed income in capital markets, and they needed someone who could work with the investment team. And I met my partner Dan Ivascyn, who's the CIO. And I think we saw the world very much the same way. We both went to the same university, University of Chicago. And why does it matter? It matters because we think that markets are more or less efficient. So when you talk about alpha and generating alpha, we both sort of have the same view. Why do we think we can make money? And what's our edge? And what's our edge given our size? And I think we saw the world in a very, very similar way, and we thought we would make a good team. It turned out to be even better. We are great friends and it's been an absolute pleasure to work with him. And before I came to do this podcast, we were brainstorming about various topics. But it's been super successful. And I think, for me, I had been, at Man, very happy. The phone call came out of nowhere, and I wanted to see whether I was good enough to run a big money management company in the US. I very much liked the people that I met, and so I made the decision to go. I had never been to Newport Beach before, and it's been seven great years. So sometimes things work out.

Simon Brewer

Well, that's really nice to understand that journey. So spotlight on PIMCO. Just give us a quick recap on PIMCO, size, assets, offices, people.

Emmanuel Roman

So we are all over the world. Our main locations are Newport Beach, Austin, New York, London, Munich, and then Asia where we have Hong Kong, Singapore, Japan, Australia. We manage, the latest number that we have published is north of $1.8 trillion. And we do fixed income. And what I mean by fixed income is everything from government bonds, to corporate, to high yield, to bank loans, to muni, to private credit, to real estate. And we offer different products in different regions. And we have a footprint in both institutional and retail, which is roughly equal. And of course, PIMCO was well known because of Bill Gross and was founded, I think, once again, by accident on the West Coast of the US 53 years ago as a spinoff from Pacific Life. And Pacific Life is a sleepy mutual company in California. And then there was a clear first mover advantage. I think PIMCO benefited from being the first really, really serious fixed income investment manager. But we have critical size, and I think we have an unbelievable depth of professionals. We've benefited I think from being different and from having the same investment process for 53 years, where we have an investment committee and decisions are made at the top, and there's a macro view. And I think all portfolios have to follow certain numbers of guidelines.

Simon Brewer

Well, we're going to get into the alpha, the process, the opportunities in a minute. But I'm not sure any of us who have been in the industry for a while, even acknowledging that central banks had already deviated from the orthodox playbook could have envisaged this yield drought that persisted for so long until 2022. And we went from yield drought to a flash flood. And you said, last year, "I think there will be a tidal wave of money coming." And I wondered how far has that tidal wave moved?

Emmanuel Roman

Maybe the best way I have to explain this is to basically point out the fact that, given the level of short-term rates, there's an enormous amount of money in cash. And people selling in cash look at expected return. And maybe the easiest way I have to explain it is to take the American example. So if you look at earnings, price earnings, what you can look at the US stock market, I think a reasonable target for long-term return from here for the S&P 500 is 8% per annum. And so if you look at fixed income, if you look at the carry on corporate bond mortgages and what you can get running a fixed income portfolio, you get very close to this level. And so you have a strange situation where you can earn as much money on an expected return basis in fixed income than you can in equity. And that doesn't happen very often. And so all of a sudden, fixed income becomes incredibly attractive, and that's really what's happening here. Of course, I don't have a crystal ball in terms of the flow of funds, but expected returns drive flows, and drive the flow for the industry. And people look at what's happening here and just say, "Two years ago I could invest and earn 2.5% to 3%, now I can do 8%. It looks attractive." And I think you'll see this playing for the whole of 2024. And of course, Simon, if inflation is higher than expected, and if we get the macro framework wrong, and short term rates keep on going up, then it may be a different story. But it's not the central case, and I think the most likely scenario is inflation will get under control and short term rates would be lower a year from now.

Simon Brewer

Yeah, it's interesting because I was looking at some data ahead of making a talk at Oxford University tomorrow. And a hundred years of data show S&P returns nominally at 9.5%. So haircutting them to 8%, given that by many measures they are expensive, would seem possibly quite well-disposed or quite an optimistic scenario. But as you say, no crystal balls, and many of us have tripped up too many times by high level forecasts. PIMCO has always been associated with seeking and achieving alpha. Tell us a little bit about where you specifically are most excited.

Emmanuel Roman

We are in a very target rich environment. And I always say, when you go fishing, it's better to go in a pond where there's a lot of fish because irrespective of skill, it's going to be much easier to catch fish. And it's exactly what's happening. So the fixed income market is really good and cheap in many ways, and there's things to do. And you have a confluence of events that makes it attractive. So mortgages, for example, are really attractive. A lot of people need to fund themself in real estate. And so lending money in real estate, given the fact that banks are not involved right now, is going to be really attractive. When you think of all the banks that need to improve their capital situation and need to sell big portfolios of assets, that will be a trend where it will give us and other people a chance to buy cheap assets because there's a seller. And the seller, for regulatory reasons, needs to sell. And it goes on and on. And I always say, the fact that banks need to sell to de-lever is good for us. It's good for us because there's a big portfolio for sale, we can extract premium pricing, we can find a way to trench the portfolio. And at the end of the day, it contributes to the alpha for our investors. And I think that's quite a straightforward process.

Simon Brewer

And given you're capital rich and the banks are forced into this de-leveraging, and there's disintermediation, for the want of a better word, would you actually like to see more stress, for example, in the commercial property market as we go through this process, because that would create more opportunity? Or do you think that the process actually will be less turbulent than some would think?

Emmanuel Roman

Well, I think I'll give you two examples to kind of contrast this. So if you are a British bank, for example, and you have a big US operation, the US makes it difficult for you. And it makes it difficult because they trap your capital in the US, and they regulate all banks the same and don't give you enough credit for your situation in London. And I can make the exact same argument about Frankfurt or Paris. And so what these banks need to figure out is how much capital they want to have in the US, and whether it gives the shareholders a proper return on equity. There's no stress, it's a matter of capital optimization and whether you want to have less or more capital in the US. And I think that leads to one or two things. Either you're happy to have capital in the US, in which case you're going to run higher capital ratio with the funding that goes with it. Or you will say, you know what, maybe I don't need all this balance sheet in the US and I ought to sell some of it to some of my competitors. And it can be mortgages, it can be credit card, it can be loans, it could be many different things. And that's an opportunity for people like us. Then at the other end of the spectrum, you clearly have a fairly tense market in commercial real estate, but there's a refund going on where people who borrow money very cheaply will need to refinance the debt because there's not enough transactions. And what you will see is the cost of funding going from 4% to double-digit funding. And if there's a chance for us to land at a double-digit return, at 50% loan to value to big commercial real estate players, if we pick carefully the sector, if we do our homework, if we understand bottom up the dynamic of the market, it's probably a very good opportunity. And so the debt side in real estate, for example, ought to prove to be quite exciting and there's a lot to do. If this thing's correct, you have a very good vintage. And then banks slowly but surely come back, the market improves, people refund themselves, rates go down, and then all of a sudden the excess return rebalances itself.

Simon Brewer

Understood. So let's move to the world of private debt. As you know, the allocations to private equity and to private debt climbed in the absence of yield. There's a lot of debate about private debt and a lot of debate about the shadow banking system. And I just wonder whether you could answer two questions that intrigue me. And I sit on a couple of investment committees, so we look at the world of private equity and we look at the fact that marks, so the mark to market is a slow process, is a progress that lags real prices. How should we think about the marking process of private debt?

Emmanuel Roman

I think you should ask questions to your manager and extract the answer you feel like. I mean, we manage so much public money that for us the market price dictates how we mark the rest of our security. And that's the way it is. And by definition, our returns will be more volatile because we mark to market. If you take to the other extreme, private equity are much slower to mark their position, and I think that's been well studied and it's part of the attractiveness for people to invest into private equity, that it's a slow moving train. But what really matters is the underlying volatility of the portfolio. And the reality is, things are moving. They're moving up, they're moving down. Think of VC for example. VC was the darling investment of everyone in the US until the end of 2021. And now no one wants to hear about it. And what's pretty clear is, at the end of 2021, VC was marked too high, based on hope and based on comparables. And how much has been repriced, what people own, what way it should be marked, I think is a big question mark. And I don't know the answer. But for us it's very straightforward.

Simon Brewer

So when we think about private debt and those who are allocating to it, how do you answer the question of, should one be expecting to hold it to maturity? And what sort of premium, liquidity premium, should you be seeking to harvest?

Emmanuel Roman

It's a very good question. I would think that you need to hold it to maturity, and so you need the right lockup to be able to do it. And you will have a portfolio of debt with a synthetic rating of BB, weak BB, usually better covenants. And depending on how much risk you want, you will have a return ranging from right now 9% to 13% to 14% if you do more opportunistic lending and more distressed attrition. And I think if you look at the granular detail of the various investment opportunities one has, there's also a lot in what we call specialty finance. Equipment leasing, for example, is one where there are very few people doing it. You can land a double-digit return. It's not only lending to private equity. There's many different ways to do this. You can buy royalty, you can buy music rights, you can buy a stream of cashflow, you can buy a life settlement. There's a lot of things to do right now. And what I think we hope to be able to do is to look at all of them and say, on a comparative basis, this is really exciting and this is less so. And I think one has to be super selective and not be boxed into one area of the market because sometimes they get overcrowded, but there's a lot to do.

Simon Brewer

Yep. And I quote you when you said a few months back, "We think the opportunity to take risk is quite good." And I think it was Howard Marx who, of course, said that the worst loans are made in the best of times. And now we flip that on its head. So I understand if you're a provider of capital, why it might be a target rich environment, which leads me back to the passive versus active issue. We had BlackRock on a few months ago who, of course, were keen to articulate the benefits of the world of passive in fixed income. And yet the evidence is apparent that more managers are able to outperform their benchmarks in the fixed income world than if they're active managers. How do you think about the active/passive debate in fixed income?

Emmanuel Roman

I think it's a remarkably clear picture. Active fixed income management beat the benchmark. And I find, really, very little reason to buy passive fixed income. And I would like to tell you we are the only one beating the benchmark. Unfortunately we're not. And the reality, if you take a step back, is equity, the benchmark is simple. The bigger the company, the bigger the weight in the index. So if you have a Vanguard index fund, you will own a lot of Apple, a lot of Microsoft, a lot of Amazon. In a way, from a capital theory standpoint, it does make sense. You own the big companies in the economy. Flip that on its head, the fixed income ag will have the exact reverse problem. It will own the big exposure in companies that have a lot of debt. That's problem number one. So to start with, the benchmark is a very different benchmark, which makes far less sense than the equity benchmark. That's point number one. Point number two is, take a company like Boeing, for example, which is in the news. Boeing has literally 200 different bonds outstanding. So one doesn't have to own the Boeing bond, which is in the benchmark. One can actually all day long look at relative value of Boeing debt versus the one in the benchmark. And essentially being able to pick penny by constantly looking at improving returns. The third option one has is, there's a very liquid CDS market than what we can use either on indices or on single name. Sometimes the basis is rich, sometimes the basis is cheap. One can go from one to the other. There's a lot of pennies, nickels, dimes to pick here in terms of improving performance. And you see exactly that. And so, no, it doesn't make any sense for me to invest passive in fixed income.

Simon Brewer

Got it. Emerging market debt, I find, is talked about a lot less, certainly in the money management community where I travel. How do you approach EM debt, given that the world is growing and capital is needed everywhere?

Emmanuel Roman

When I think of the attractive opportunity right now, EM local debt is attractive. And we have a big footprint. There's a lot to do. There's a lot to do in South Africa. There's a lot to do in Brazil. There's a lot to do in Mexico. And actually, we've seen quite a bit of interest from clients and flows of people adding to EM exposure. And the problem with EM in fixed income is that it encompasses a lot of different things. So it's Asia, of course, but it's also Latin America and Eastern Europe and so on. And so one needs to be careful about how you define it. But there's clearly a lot to do. And don't try to time it. Just sit on it and earn the carry of the local bond and the local debt. You look at Brazil, for example, or Mexico, I mean those are exciting places. And remember, in fixed income, all you want is you want your money back. You don't have to decide who the winners in the local economy are going to be. You have to make a judgment about the curve. You need to make a judgment about inflation, you need to make a judgment about the central bank and you need to make a judgment about the currency.

Simon Brewer

So I know you are running this significant fixed income business. And we'll talk about PIMCO business. But as you step back, you've been in this business for a long time. We've seen imbalances at a country level that have dwarfed anything we've seen before. The US is near full employment, it's put interest rates up. The economy still seems to be in okay shape, and yet it's running these huge deficits. And if you look at the congressional budget office forecast and the rest, debt to GDP continues to rise inexorably with no obvious solutions. And I think I'm right in saying, or maybe it was Neil Ferguson who'd said that debt service cost this year is going to exceed defense spending outlays. Do you sit back and worry how this all ends?

Emmanuel Roman

Of course. And when you think of a super secular framework, the reality is, the deficit level versus economic activity are too high. And there will be a time where there will be budget constraints and less spending and higher taxes. And the speed at which it unfolds and how it all happens is open to debate. But the reality is the level of interest payment is not sustainable. I think all of us had to learn from the Japanese experience where essentially Japan has been able to run with a very high level of debt to GDP for a very long time, keeping rates very low and with a very difficult demographic pyramid. And I think that has surprised most of us in terms of how much you could run as a deficit. But the US at some point in time will have issues. I think Janette Allen said it very well, "You never know when it's going to be an issue, but at some point in time it will be an issue. At some point in time the market will say it's too much."

Simon Brewer

So let me just pause on Japan, A, because we might be getting some yield back. So I'd like to hear your thoughts on it. But isn't the flaw in that Japan's lived without high debt to GDP? Number one, it was financed domestically, essentially. And number two, they're the largest creditor nation in the world. So they have a cushion which the US once had, but which disappeared a long time ago.

Emmanuel Roman

But the US has the benefit of being the only investible market in large size. So I always say when people say to me, China wants to put the money into the Euro or into trade agreements with Saudi Arabia and so on, it's all fine, but the size is the minimal versus the amount of money they need to put in a liquid currency where you can invest and take your money out. The dollar is the only real reserve currency where you can trade in very big size. And the euro hasn't fulfilled its mission in terms of liquidity and in terms of being able to be a place where people feel comfortable to put large amounts of money. And so the fact that the US has a privilege being the reserve currency should not be lost on anyone. And that has been a major competitive advantage for many decades. And I think our friend Neil Ferguson would say the exact same thing. It is a great competitive advantage. And the only one who has a chance to be a reserve currency over the next 50 years is China. And whether they decide to let the renminbi float or not is a big political question because with free float comes also the lack of capital control. And that's a big if.

Simon Brewer

And of course it was your fellow Frenchman, late Frenchman, Giscard d'Estaing, who talked about that exorbitant privilege, somewhat annoyed. But let's stay with Japan. Yields have, with glacial progress, inched up. But the currency is as cheap as it's ever been versus purchasing power parity. How are you thinking about Japan?

Emmanuel Roman

Well, we like the yen and it's moving at a glacial space. So it's one of the trades where on every possible model, the yen is cheap, but it's not working. Cheapness is one of the factors. It's not the only one. From a portfolio construction standpoint, it makes sense to have some yen. But timing is uncertain. And of course, it has a big negative carry for a dollar investor and, of course, for a European investor. But currency can be cheap for a long time. Ultimately when they become too cheap, they tend to revert to [inaudible 00:33:14].

Simon Brewer

So let's put that spotlight back on Europe. It was interesting because we've had, on the show, Xavier Rolet, who you probably know, on the stock exchange.

Emmanuel Roman

Well, more than know. I sat next to him at Goldman Sachs.

Simon Brewer

Of course. Well, I didn't realize that. Well, he was one of our early guests. And I think that if ever you wanted to listen to the criticism of Europe's reliance on bank funding and debt finance and the lack of equity financing, and that playing out in the lack of entrepreneurialism, he made it. And we had Nicolas Dufourcq of the BPI on as well. And so we've had a couple of French people very seriously talk about the reasons underpinning this euro sclerosis. Now you sit on the West Coast, you work for an American firm.

I know your parentage is Allianz, so it's German. But what do you reflect on what is needed? I won't say is it possible? But what is needed to energize Europe?

Emmanuel Roman

As you look at globalization and you look at outsourcing, this is not a positive sign for the labor force in Europe who I think face two threats. One, globalization. But also the rise of AI and robotics where, everything else being equal, there will be less jobs rather than more in certain sectors which have been big providers of jobs in the past. You look at France, for example, there are far too many jobs in the state where the state remedies the lack of innovation in the private sector and essentially becomes, defacto, the big employer. If you look at England pre Brexit, I think there was a very decent chance for London to become as important to the global financial markets as New York is. Post Brexit, it's of course quite difficult, and people had to move jobs in Ireland on the continent for a variety of regulatory reasons. Where for most of my career, London was the perfect place to work. That's a cost, that's a net cost to a country. So you need to have a business model where you say, how do I compete on a global platform? Germany had the Mittelstand where they built great product, they sold to China. Whether it was cars, whether it was engineering, whether it was chemical, that's what Germany did. France, what does France do? They do luxury good products remarkably well, and then they have a few national champions. Is that a real business model? Not clear.

Simon Brewer

So let's just invert that. We've talked about the target rich environment as an investor in the US. As you look across Europe and UK, you've had the same or similar rises in rates, and refinancing's beginning, happening right now. How excited are you about that investing landscape?

Emmanuel Roman

I think the UK has provided amazing trends for the right and the wrong reasons. And there was a lot to do in the currency and in the rates. And every time you have political change, there's plenty of freedom in terms of investing either long or short in various parts of the curve and the currency. I think the one thing that the rise in rates has given us is relative value across country. Do we think it makes sense to have 10-year rates in the UK being higher than the US or vice versa? Does it make sense to have 10-year rates in Europe versus the UK where they are? And so on and so forth. And so we have a very big global footprint in terms of global funds where investors want to have an allocation to the global bond market. There's a lot of relative value trades to be done. And that, if you asked me two years ago, there wasn't much to do. Now all of a sudden there's a lot to do. And so the government is in place in the UK. There may be a new labor government in the not too distant future that will give rise to a lot of things to do. Same in Europe. I think we're going to have our hands full over the next two years. And in a good way, I would say.

Simon Brewer

I read in one of the pieces that you had authored that you were extremely constructive on AI's ability to help your business. I just wonder if you could explain why you are excited.

Emmanuel Roman

We are a giant consumer of data, and it's data which are numerical, it's print, it's words, it's images, and we take all this data and we try to fit them into a framework where we make investment decisions. And the reality is AI and deep learning have a way to synthesize data in a better way than the human brain, and in a faster way. And better data, more organized data, more curated data gives an edge. And remember, we do a lot of things, for example in commodities, where there's a whole tree of data that don't necessarily come to mind where there's natural gas, there's geographical risk, there's shipping, there's political risk now in terms of shipping, for example. All of these things come into the picture. And having an ability to collect them very quickly is definitely a plus. It makes our business more efficient, it gives us a lower cost of trading and it goes on and on and on. And I really think what keeps me awake at night is being able to invest enough and be able to put enough money so that my process becomes better and my alpha becomes better day after day after day.

Simon Brewer

And practically, with this enormous paradigm shift, which is two words often overused, but in this case it does appear to be absolutely right. How do you implement the potency of that AI across your teams? What are the steps that you have so far taken?

Emmanuel Roman

Make it a top priority for the firm as a whole. I own it. Have task force, have specific projects in terms of success, in terms of being able to be more productive. I always say, all of us, 20% to 30% of our job is really a total waste of time. Think of your own life, right? You look for a phone number, you look for an email, you look for an image and so on, and you look for it and you're looking at Outlook and you get frustrated and so on. I just think that with the right tool, we're going to make everyone much more productive in terms of their day-to-day job, and happier because the part of the job that they don't really like is going to disappear. Remember the days where you would go and try to go to Dorsett in 1981, you would have a map, you would get lost, you would take three wrong turns, then you would finally arrive in a terrible mood, saying, "This map is totally useless. I cannot believe I went there and so on." Now, you'll go straight there in a place you've never been, you'll just put the address. That's the beauty of Google Maps. And I think a lot of this is going to happen. A lot of things that now we take for granted and that the younger generation never had to experience is going to be a big improvement in terms of work and in terms of leisure. Think, for example, of your car. You're going to be able to have a better version of Siri, a better version of driverless car, a better version of Amazon Prime, where you're going to be able to dictate more complicated sentences in terms of what you want, and the computer being able to find it.

Simon Brewer

So that leads us to culture. Because, as alluded to, you're a Frenchman running a Californian company, owned by a German insurer, Allianz. I think it's market cap is a hundred billion euros. So you've got an interesting series of inflections. How do you think you manage and get the best of the culture where you are? And also having a parent that is a German parent, and we know that teutonic efficiency is great, but it does things differently.

Emmanuel Roman

So there's a total Chinese wall between what we do and what the kommandantur in Munich is. Look, culture is really, it's a very strange concept. I think the English language has won the war. And I remember London as being a place that everyone wanted to go to because they wanted to be part of a community. And it didn't really matter whether you were Italian, French, German, Norwegian, you would come to London. And I think good companies are like this. Hopefully, there's a broad area of people from all parts of life who want to come to PIMCO, want to strive here, want to succeed and want to contribute. And what I'm hoping for my investors is that the experience that my investors have in terms of performance is exactly that. That they get the sum of everyone working in sync and delivering the right product and the right performance. But it needs to be a culture where everyone feels welcome and anyone can succeed here and one day run the firm. You could ask me why I think diversity really matters and why we want to have different people. Because the reality is you look at the world totally differently if you're 25 versus when you're 60, like us. And you want different people. You want people who bring a different view of life and are willing to contradict you. And you need to have a culture where people can feel like they're part of an organization who's willing to listen to them.

Simon Brewer

Yep. I think that's well expressed. I'm going to ask you some general questions as we move towards the end. And in fact, one is from a former colleague of yours, Aidan McGreevy. And he said that he'd noted and read that you did the preface to Victor Haghani's book, The Missing Billionaires. And he said, what advice would you give to investors looking at the long time horizon and wishing to hand down wealth inter-generationally, given it's proved so difficult for so many families?

Emmanuel Roman

It's very funny. So I know I've been friends with Victor for 30 years, and that's why I prefaced the book. But this idea is that the Vanderbilt family had an enormous amount of money before the first World War. And you will be remiss a hundred years later to find any Vanderbilt with significant enough money. And Victor as some back of the envelope computation and essentially shows that somehow the money disappeared most likely because they invested it pretty poorly. So I think the lesson for me in terms of how to think about long-term investing is, one, have the right asset allocation and the right risk. Two, I'm a big student of behavioral finance. And so don't over trade. And have principles in terms of how to rebalance your portfolio, where you can think about the amount of risk you take and don't subject your portfolio to your own stress when things are difficult. And they're bound to be difficult.

Three, carefully look at cost, don't buy any individual security. Trust managers with your money. And I think every study shows that direct investing leads to pretty mediocre results. So I think Victor quite carefully thinks about risk, and that's a whole other topic in terms of what's the right risk level? What can happen to your life? How do you think about real estate? How do you think about your life expectancy? How do you think about your spending? All of these things, I think, the book developed really well. And I will not do justice in terms of summing up the book, but it's actually quite a technical book, but quite a very good book.

Simon Brewer

Well, we'll put it on the show notes. And actually, since you just were talking about allocations, I was reminding somebody the other day, which dates me, it's an old expression, which is the fixed income allocation in your portfolio should equate with your age.

Emmanuel Roman

You know what, there was this principle, which I don't think it's quite right, but it's a good proxy that you should have in equity a hundred minus your age. So it's the same thing, right? So for us it would be 40% in equity, 60% in fixed income. And I think the premise is that as you get closer to retirement, you want more cash flow and less volatility because your human capital is less valuable. And I think that makes sense.

Simon Brewer

Got it. A few very general questions. I know, because I have read, that you are fascinated with wine. And as I said to you, one of my great early jobs was working at Stags' Leap in California. If you were to serve one American wine to President Macron and one French wine to President Biden, what would they be?

Emmanuel Roman

I would serve to President Macron a 1974 Martha's Vineyard. And it's Californian wine before modern Californian wine and before California became really hot. And the Californian wine industry is unfortunately a story about global warming and the fact that they make this incredibly heavy wine because they don't have much of a choice, because it's just too hot. And that will happen to France and it's happening in Châteauneuf du Pape. For President Biden, I would serve him a Châteauneuf du Pape. I really, really like Châteauneuf du Pape, and I would pick Rayas, which is my favorite wine.

Simon Brewer

Yes, I have to say, even though it would upset Xavier Rolet, who of course is running his own vines and has pulled his irrigation out out so the vines can go down and down to get to the deep waterholes and lower the alcohol, or so he argues. I agree. So two final questions. A lot of students listen to our podcast around the world. What advice would you give to a young person thinking about joining the world of finance?

Emmanuel Roman

That they will have a wonderful experience, and that what one needs to think about is how to build first human capital. Don't worry too much about how much you get paid. Join a company who wants to invest into you, learn as much as possible, ask questions. Because the reality is, your brain at 22, 23, 24, 25 is so plastic, in a good sense of the term, that this is when you learn an enormous amount. And it's harder to learn later in life than it is to learn now. And so I think that getting the right training, getting the right organization, getting the right friends in the company is incredibly important. That's why I'm very ambivalent about young people joining startups because it's not clear to me they learn much from their peers. And the noise and the volatility of a startup is such that once in a hundred it's the best place ever to have worked for. But in a lot of other cases, maybe the learning curve hasn't been as steep as it would've been in a more regimented and more professional organization.

Simon Brewer

That's good. I'm not sure in 120 interviews that anybody's actually offered exactly that advice. So thank you. Now, I also note you are a very generous donor to a number of charities, Lunchbox, Feeding America, the Global Food Banking Network. How do you think about prioritizing or focusing on one charity, given that there are always so many worthy causes?

Emmanuel Roman

I was incredibly influenced by Peter Singer, the philosopher and John Rose, and the fact that we have a moral obligation to the ones who are the most in need. And the reality is you have 5 million people dying of hunger in the world. That resonate a lot with me. I can do something about it. It doesn't mean it's a better place to give money than giving money for cancer or giving money to other worthwhile charities. But giving is important. And spending time in terms of making sure the money is well-used is an absolute must. And I do think, from a selfish standpoint, it makes your life better. I told you before we started this podcast that my wife is South African and we feed a hundred thousand kids in South Africa. That's the good news. The bad news is another 4 million we should be able to feed. And South Africa is a BBB rated issuer. It's not the worst place on earth, but the system is beyond dysfunctional and there's many people who need help. And they need help because they got the bad draw in the distribution. And I can leave you with one concept which is very dear to my heart, is our generation has been incredibly lucky. We had a great bull market in equity and in fixed income. We saw no war to speak of. And yes, we did see a pandemic, but for the most part, it's been a pretty smooth ride. We should all realize that it's not the case if you're in Ukraine, it's not the case if you've been in Uganda, it's not the case if you've been in Bangladesh. It's not the case if you've been in part of the Middle East. And that is a fact of life. And so all you can do is remember that and remember how lucky we've been, and that luck has a lot to do with outcome.

Simon Brewer

Yeah. And my final question is that, in my research, of course, I discovered that you must be a serial optimist because you support Arsenal.

Emmanuel Roman

Yes, we do need a center forward. And I'm a serial optimist. But my dear friend Howard Davis is a Man City supporter. And I just told him two days ago that I conceded the premiership to Man City because I think they're going to go from strength to strength. It's difficult to build a scenario where we can be a better team. But you know what, it's a very happy experience to love football and it's a great melting pot. And I truly, truly miss English football, being in the stands. My partner, Andrew Balls, they're Norwich supporters, from father to son. And it takes a great skill to be a Norwich supporter because you go up, you go down. Arsenal is a happier experience.

Simon Brewer

So look, I am going to sum up, as I do. And I've taken a number of things away from this. Number one is that you are justifiably excited about the universe of opportunities existing under the umbrella that is fixed income, with yields that compete, by your computations, with equities. That's number one. Number two, that there is no doubt in your mind that active management of fixed income has the edge over passive. And I think that's very clear. And as one thinks about intergenerational wealth and preservation thereof, is that thinking about the right risk, not over trading and thinking about costs are three elements to a strategy that are often overlooked. And so with that, I'm going to stop. Manny, if we do meet, that 1974 Martha's Vineyard, I've not had, and I'm just hoping you have a few bottles somewhere that you may want to share one with me.

Emmanuel Roman

Very few left. But you have to come to California, they won't travel.

Simon Brewer

Oh God, that's right. Well, look, thank you so much for being here today.

Emmanuel Roman

Thank you for having me.