

Alison Mass: Welcome to our continuing series of special episodes of "Talks@GS," where we're going to be speaking with some of the world's greatest investors. My guest today is Weijian Shan, who is the chairman and CEO of PAG Group and the author of the new book *Money Games*. Shan, I'm really excited to have you join us to discuss your investment outlook in what is such an unprecedented moment in the global markets. So thank you so much for being here.

Weijian Shan: Thank you very much for having me.

Alison Mass: So can you take us back to the beginning of 2020 and tell us how you approached opportunities early in the pandemic, in particular January in China and then as it spread throughout the rest of the world, February, March?

Weijian Shan: Back in January when China first started to lock down, severe lockdown, sealed up the city of Wuhan, we began to think about what we should do to protect our business and to manage our business going forward. And we immediately went into a mode of capital preservation because we know as the economies shut down, it is very important for us, for every portfolio company of ours to survive. And the only way to do so is to have enough cash.

And fortunately, almost all of our portfolio companies are low in debt with very little debt or no debt at all. So we were able to cut costs, preserving cash, and managed through the crisis.

Alison Mass: So where are you focused now? And what do you think are the long-term implications for investing?

Weijian Shan: Well, PAG is a \$40 billion company. We have \$40 billion under management. And our businesses are divided into real estate investment, option return, which includes private debt and public market strategies, and then private equity. Even though I'm chairman and CEO of the group, I focus almost all my attention on private equity buyouts. That's where I focus on.

We focus entirely on Asia. That's our mandate. However, we focus only on domestic and private consumption in countries where we invest, particularly in China. We recognize in Asia and in China overcapacity is a major problem. Henceforth, it is a difficult sector because the cost of inputs have been rising very rapidly. So we focus on investing in businesses which

cater to private consumption in China and elsewhere in Asia,
Australia, India, Japan, Korea, Southeast Asia.

Alison Mass: So if there are increased tensions between the US and China, does that offer a competitive advantage to PAG being a premier local private equity investor?

Weijian Shan: Well, if the relationship between China and the United States further deteriorates, I think everybody suffers. I don't think we necessarily have the advantage except in the fact that we focus on domestic consumption or businesses which cater to domestic consumption. And therefore we're not so affected by interruptions in trade flow, technology wars, and the like.

Alison Mass: So Shan, if you think back on your career, what would you say is the greatest investing lesson that you've learned from a particular deal, whether it's a deal that went well or a deal that ended up not working out so well?

Weijian Shan: Well, we have invested in so many deals, but let me tell a more recent one. Tencent Music Entertainment, which used to be called China Music Incorporation. We were the first investor. When we first invested, we put in about \$100 million. And now it's worth, our stake, about \$2.5 billion after just about four or five years. And when we invested in this business, I was always of the view that a startup is not the kind of business that PAG Buyout Fund would invest in because the risk is higher. But we recognized, after looking into this particular company, that in fact this has a chance to become almost a monopoly in music streaming business in China because the environment for intellectual property protection was changing so rapidly that copyright protection became no issue back about five, six years ago.

Prior to that, piracy was rampant. But recognizing that the environment was changing, that enforcement copyrights was not only possible but almost a certainty, we invested in this company which didn't have much of a business to start out with at that time. So because the business has copyrights that covered 70% of the entire digital music market in China.

The lesson from that investment is that you have to invest in businesses which have meaningful entry barriers, competitive advantages that other people will not be able to imitate or to compete with. And that's what we look at for every deal.

Alison Mass: So on a personal level, what do you think has been the key to your success as an investor?

Weijian Shan: Yeah, I just think of every business as my own. And in our firm, PAG, a culture that we have built and we promote is the culture of ownership. In our PPI review every year, the first item is sense of ownership because we believe if anyone has a sense of ownership regardless if he's a partner or he's an associate, he will do whatever he has to do well, even if he's not very knowledgeable about that particular business.

Alison Mass: So when you evaluate your more junior investment professionals at PAG, what do you think differentiates a really good investor from an average investor? And you've talked about a sense of ownership, but what are those other qualities that you look for?

Weijian Shan: I think two things. A few years ago, I read a book by a woman, Angela Duckworth, I think, by the title of *Grit*. And it basically says that is the secret sauce of success. You have to have tenacity, audacity, and the willingness to persist and persevere. I think that's very important. But I think a more important success factor is being able to make right decisions, to make the good judgment to make the right decisions. If you make wrong decisions, the more grit you have, the worse off you become.

Now, how do you get the ability to make more correct decisions than wrong ones? I think the only way to do it is through experience. You learn about businesses. You study history. And you become more knowledgeable. Then you are faced with a particular situation, you are more likely to make the right decisions if you know about that particular business.

So we encourage our people just to learn about everything.

Alison Mass: So finally, what advice would you have for someone starting out in investing today that you wish someone would have given you when you were first starting out in your career?

Weijian Shan: I was very lucky because I was able to work with David Bonderman [sp?], who I highly respect, who is very experienced, very smart, and who has done a lot of great deals. So I was able to work under his guidance and advice. And I think it's very important to find a good mentor to help you especially when you first start your career. And if you are not lucky enough to just have one, you should look for one.

Alison Mass: That's great advice. So Shan, I really appreciate you sharing your insights with us. This was a fascinating talk. And stay healthy and stay safe.

Weijian Shan: Thank you very much. The same to you.

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