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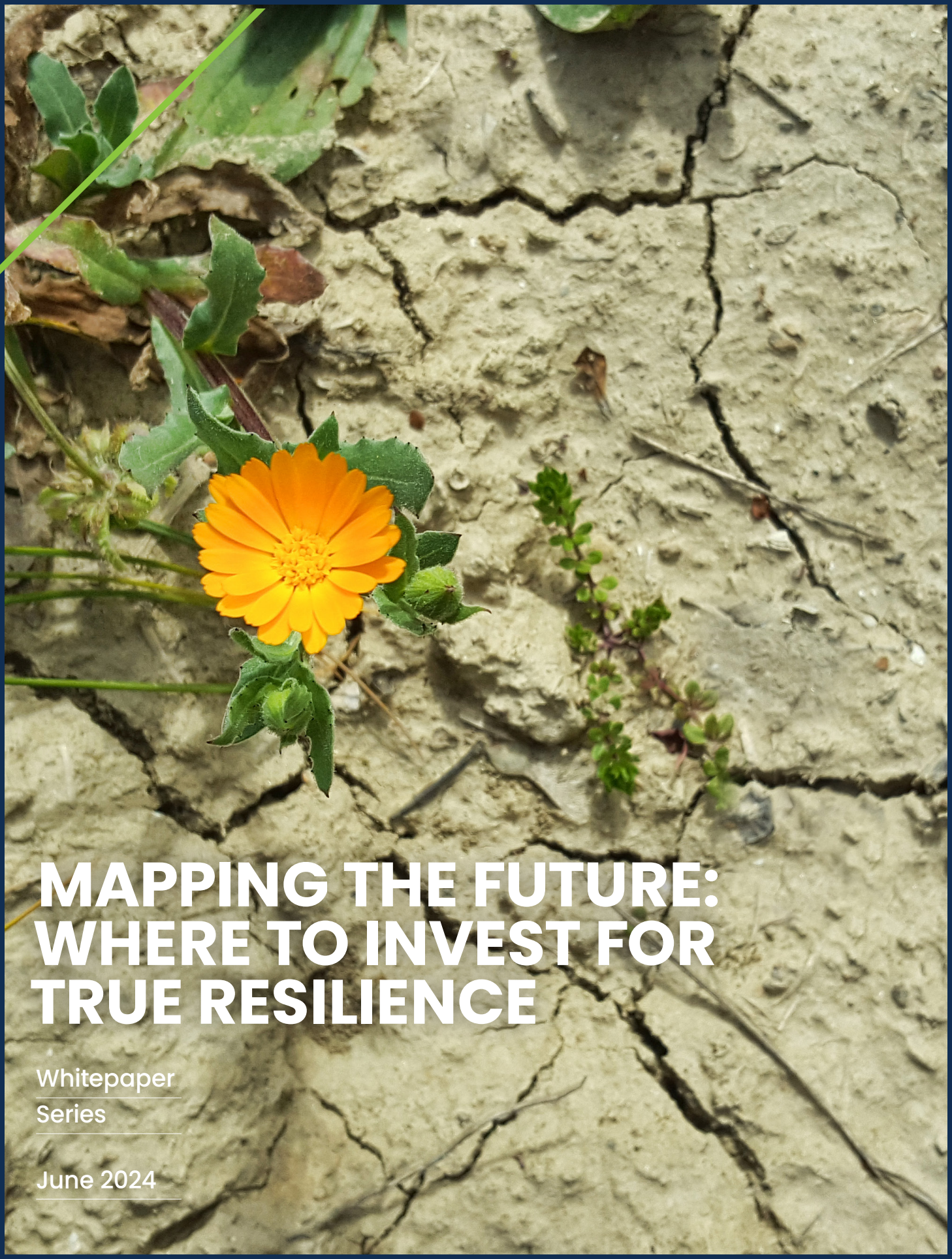

MAPPING THE FUTURE: WHERE TO INVEST FOR TRUE RESILIENCE

Whitepaper Series

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MAPPING THE FUTURE: WHERE TO INVEST FOR TRUE RESILIENCE

Geopolitics, demographics, technology and climate are driving a new global economic geography – and data science can lead investors into the promised lands of future growth.

THE FORCE OF COMPLEXITY

WE LIVE IN AN INCREASINGLY COMPLEX GLOBAL SYSTEM. This means that not only the individual drivers of change, but also, just as importantly, the dynamic interaction among them, are accelerating, shaping the world in unforeseen new directions. And yet, as difficult as it is to predict the future, locating colliding trends on the map can lead to high conviction investing despite perpetual volatility.

Four forces are structurally significant in and of themselves and in their amplification of each other.

First, geopolitics. The world has become irrevocably multipolar, with a half-dozen major powers holding sway in their respective regions and able to shape global developments as well. Unlike historical patterns of rigid alliances and Cold War-style blocs, today we find that great powers are interdependent with each other in trade, finance, technology and commodities. Their alignments are shifting and issue-by-issue, as they hedge relations with each other and eschew formal commitments. The rest of the world is acting the same. Middle powers are also not choosing sides but instead shrewdly practicing what I call "multi-alignment," negotiating in all directions to get the best deal for themselves. The result is a reconfiguration of value chains, new regional and distributed trade groupings, and alternative financial institutions such as the BRICS. Investors and multinationals have responded as they should, by reorganizing themselves into federations of regional or national firms to continue to capitalize on global opportunities despite these tensions.

Geopolitical competition has also accelerated the second great megatrend: technological nationalism. Industrial policies related to near-shoring and greater subsidies for strategic sectors have spread from steel to automotive to clean tech to semiconductors to AI. Seemingly everything is now considered "dual use." This is both inefficient and inflationary – but it too compels businesses to go beyond borders and localize to comply with national regulations, usually in partnership with national champions.

Geopolitical disruptions and economic nationalism are also driving new patterns of migration. At least six major conflicts today have spurred millions of refugees each. Meanwhile, unfavorable conditions for the wealthy and entrepreneurs have pushed talented founders and families to become investor migrants. And most fundamentally, the great demographic plateau portends the imminent arrival of "peak humanity," with countries needing to compete for young talent to maintain fiscal stability despite the cultural and political instability it foments. Corporate governance and marketing strategy requires far greater sensitivity to these new societal realities.

Perhaps even more profound than geopolitics, technology and demographics is the alarming pace of climate change. Scientists warn that we have already crossed the tipping point of an inevitable 2 degree Celsius average temperature rise, with chain reactions across the biosphere already frighteningly evident. Depleted water tables are eviscerating once reliably fertile regions while giving birth to new agricultural hubs for wheat, soybeans and other staple crops. Typhoons disrupt supply chains while the race for key minerals to fuel the energy transition accentuates economic nationalism. Floods, fires, heatwaves and drought are displacing hundreds of millions and driving unprecedented →

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ABOUT THE AUTHOR

PARAG KHANNA is Founder & CEO of AlphaGeo, the leading AI-powered geospatial predictive location analytics platform. He is the internationally bestselling author of seven books, including MOVE: Where People Are Going for a Better Future (2021), preceded by The Future is Asian: Commerce, Conflict & Culture in the 21st Century (2019), as well as a trilogy of books on the future of world order beginning with The Second World: Empires and Influence in the New Global Order (2008), followed by How to Run the World: Charting a Course to the Next Renaissance (2011) and concluding with Connectography: Mapping the Future of Global Civilization (2016). He is also the author of Technocracy in America: Rise of the Info-State (2017) and co-author of Hybrid Reality: Thriving in the Emerging Human-Technology Civilization (2012). Parag was named one of Esquire's "75 Most Influential People of the 21st Century," and featured in WIRED magazine's "Smart List." He holds a PhD from the London School of Economics, and bachelor's and master's degrees from the School of Foreign Service at Georgetown University.

→ climate migrations (on top of the already restless youth seeking employment and political stability). Indeed, entire new vectors of human mobility are emerging, such as the spectacular increase in the number of migrants in North America and Europe from South and Southeast Asia, which are among the youngest and most climate-stressed regions of the planet.

Our world is being divided into those geographies adapting to this complexity and those that are failing – and will be left behind as capital and talent flow to more resilient locations.

DON'T JUST SEEK RESILIENCE – INVEST IN IT

So what does resilience look like – and how can we invest in it?

First, when it comes to climate, mitigation is not enough. To date, more than 90 percent of climate finance has been devoted to decarbonization, but the slow pace of progress towards "net zero" and even reversing climate change through geoengineering demands that we urgently invest as much or more in adaptation, specifically retrofitting or relocating infrastructure, housing and other valuable but potentially stranded assets. Not doing so will add staggering financial risk on top of the already severe physical risk we face.

Sophisticated and downscaled climate modeling can point us away from areas of absolute risk and towards more stable locations that will enjoy capital appreciation as we invest in their capacity to absorb new investment and migrants. As it has over centuries, the very map of human civilization will morph towards new centers as we exercise our innate fight-or-flight instinct.

Where we build these new civilizational centers must be complemented by an equally sensible approach to how we build. The world population is both old and young – indeed, Gen Y, Gen Z and Gen Alpha, which comprise today's youth, are the three largest generations in human history. They are asset light and geographically mobile. Bearing few if any children and economically insecure, they're willing to relocate anywhere for stable employment.

The largest asset class in the world – real estate – needs to be redesigned accordingly. It could even be said that the grand social challenge of a demographically declining and mobile population is to massively expand the stock of affordable rental housing in desirable climate-resilient cities. Our future will feature fewer high-rises and more mixed-use, walkable communities with multi-generational accommodation for families, medical and civic facilities for elderly and retirees, co-working spaces for professionals and digital nomads, and sustainable industries from renewable energy to hydroponic agriculture.



The grand challenge will be to massively expand affordable rental housing stock in climate-resilient cities.

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This is a vision not only for our real economy but also for the financial institutions that underwrite it. Greenwashing instruments – whether ETFs bundling companies making long-range and unenforceable emissions reduction commitments or carbon credits – should be discarded in favor of equities and securities measured by the absolute material contributions they make to resilience today.

And measure it we can. What has been missing from economic modeling is sufficient attention to the spatial dimensions of finance and a holistic approach to data spanning macro variables, markets, geopolitics, demographics, technology and climate. AlphaGeo has built a pipeline that harnesses this vast range of datasets and applies machine learning to generate high-conviction forecasts and investment themes. For example, we capture the geographies of greenfield corporate investment and correlate them to our proprietary location resilience index, helping both to calculate the multiplier effect of new investments on growth and guide asset managers towards zones of sustainable opportunity. We also use labor market, housing, climate and other datasets to anticipate demand for real estate and other essential services, giving corporates a first-mover advantage in the most desirable future markets.

Companies and governments alike should leverage wide-ranging data streams and forecasting capabilities. Volatility can be a tailwind for farsighted investors. We will still live in a world of regional consolidation and rivalry, but also of potentially greater abundance and self-sufficiency.

Identifying resilient assets is a self-fulfilling prophecy for a complex world. Projecting which locations, sectors, technologies and businesses will drive our collective adaptation will steer more capital towards them and ultimately help us prevail over complexity itself. ■

COMPANY

ALPHAGEO is an AI-powered geospatial predictive analytics platform that works with asset managers, corporates and governments to invest in more resilient portfolios.

ABOUT FII INSTITUTE

FUTURE INVESTMENT INITIATIVE (FII) INSTITUTE IS a global non-profit foundation with an investment arm and one agenda: Impact on Humanity. Global, inclusive, and driven by data, we foster great minds from around the world and turn ideas into tangible solutions and actions in four critical areas: Artificial Intelligence (AI) and Robotics, Education, Healthcare and Sustainability. We are in the right place at the right time: when decision-makers, investors and an engaged generation of youth come together in aspiration, energized and ready for change.

We harness that energy into three pillars: THINK, XCHANGE, ACT. Our THINK pillar empowers the world's brightest minds to identify technological solutions to the most pressing issues facing humanity. Our XCHANGE pillar builds inclusive platforms for international dialogue, knowledge-sharing and partnership. Our ACT pillar curates and invests directly in the technologies of the future to secure sustainable real-world solutions. Join us to own, cocreate and actualize a brighter, more sustainable future for humanity.

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Contact

FII Institute:
THINK
think@fii-institute.org

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