



Brookfield's Antonatos Sees Policies And Pandemic's End Boosting Real Assets

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Chuck Jaffe, in The NAVigator podcast interviewed Larry Antonatos, portfolio manager overseeing real asset strategies at Brookfield Asset Management. Read the Q & A below as Larry discusses why he says that infrastructure investments will benefit in 2021 from the political



changes in Washington that may spur additional government investments, as well as the end of the pandemic, which could lead to economic expansion. He says that real assets—and infrastructure in particular—will benefit from job creation in the short run and long-term GDP growth down the line to pick up performance in the year ahead and beyond.

Larry Antonatos

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

CHUCK JAFFE: Larry Antonatos, portfolio manager at Brookfield Asset Management is here and we're talking real assets now on The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry, from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. Joining me

again today, Larry Antonatos, portfolio manager with Brookfield Asset Management. He's responsible for their real asset solutions strategies, and if you want to learn more, PublicSecurities.Brookfield.com. If you want to learn more about investing in closed-end funds, check out the website for the Active Investment Company Alliance, it's AICAlliance.org. Larry Antonatos, welcome back to The NAVigator.

LARRY ANTONATOS: Thank you, Chuck. I'm glad to be here.

CHUCK JAFFE: It's important before we get into any discussion of real assets that we know what you guys consider it. Because every time I talk to somebody who says, "Yeah, I specialize in real assets," they kind of mean different things. So what falls under your purview when we talk real assets?

LARRY ANTONATOS: I think one of the distinctions we make is thinking about real assets versus real return. Real assets do provide real return, which means inflation indexed returns. But where we are focused are real assets that are actually physical hard assets, such as real estate and infrastructure. The characteristics we're looking for are hard assets that have a long life, that produce stable cashflows, high current income, and have an inflation hedge.

CHUCK JAFFE: Most people don't think of it that way. I think most people think of infrastructure as an asset class and part of their equity portfolio. So are you holding your real assets in ways that maybe the conventional investor, the ordinary equity investor isn't?

LARRY ANTONATOS: Good question, Chuck. Within infrastructure and real estate you can invest in these asset classes in the public markets through securities or in private funds. In the closed-end fund world, most infrastructure and real estate investment is held in public securities. It would be the equity or perhaps the fixed-income bonds of companies that own and operate real estate and infrastructure assets. Essentially what these companies are trying to deliver, and do deliver, is cashflows that are generated by the physical assets, they're simply in a public securities wrapper.

CHUCK JAFFE: How did real assets navigate 2020?

LARRY ANTONATOS: 2020 was an interesting year because of the coronavirus pandemic. There were certain categories of real assets that had a negative impact from the coronavirus, and certain that had a positive impact. Essentially if you think about what happened to many of us, mobility was on the decline, people stayed home, economies shut down, retail stores, offices were closed. What we found is that the sectors of real estate and infrastructure that

had some technology component were actually very good performers. To focus you on those areas within the real estate space it would be things like data centers, which from the outside look like industrial facilities, but inside have very high levels of cooling, very high levels of electric supply, and they actually serve as the physical presence of the data servers that drive the internet. So those types of facilities were very much in demand because all of us were using many more data services, telecommunications, Zoom, Webex for our meetings instead of meeting face to face. So tremendous demand for those facilities, and they performed very well both in the private markets and in the public securities markets. Another sector that performed well also for the same reason, technology rather than face-to-face mobility, was anything related to telecommunications. In that area within both infrastructure and real estate we had cellphone towers, these are the towers where cellphone companies locate their antenna. Again, more streaming communication, more data demand, more revenue, more performance from these cellphone towers. Another sector that was positive that you may not think about is industrial space. The industrial market is booming. This is really the continuation of a trend that we've seen from a long time, where industrial space is winning at the expense of brick and mortar retail. When shopping malls were closed, when we were on lockdown, we weren't supposed to leave our houses, brick and mortar retail performed very poorly and that was actually one of the weaker performing sectors of the real estate universe. However, all of us continued to shop, we just simply shifted to shopping online. And that trend has been something that's been in place for 10-20 years, the coronavirus merely accelerated that trend. And at opposite ends of the spectrum, retail was a weak performer, industrial was a very strong performer.

CHUCK JAFFE: Let's look ahead to 2021, and particularly in light of what happened this week with the election in Georgia where we saw the democrats wind up getting control of the Senate, which should make infrastructure projects a little bit easier to get through. Is that going to be a significant boost? Does that change your outlook for the year ahead?

LARRY ANTONATOS: I do think that we should focus on two issues, the election is extremely important, but also the vaccine and the potential to get the coronavirus behind us. Let's talk about the election first. With a democratic president, a democratic-controlled House, and a democratic-controlled Senate, although the margins of control are very, very small, it does set up the potential for legislation to be easier to pass. However, I do want to stress the

margin of control is very, very small. Infrastructure is an asset class that frankly everybody loves. What's not to like about better roads, better airports, a more durable power grid, better water, cleaner water? Everybody loves those things. What I do think should be a nice confluence, is that the government is actually engaged in a lot of fiscal stimulus to get the economy going again after the coronavirus, and we have this sense of democrats wanting to invest in infrastructure. The beauty of infrastructure investment as a fiscal stimulus tool, is it's actually a very productive stimulus tool. Right away it employs people, so it creates job, it creates demand for materials, it creates demand for designers, architects, engineers, etcetera. But most importantly, the long-term benefits are value-creating, it makes every aspect of our society more efficient. We can have shorter commutes, we can have better supply chains, we can have higher quality water, less loss of water, less loss of electricity and more a durable power grid. So the long-term benefits of infrastructure investing means that GDP growth should accelerate from infrastructure investments, which is what we can all get excited about. Job creation in the short run, and long-term positives of GDP growth in the long run.

CHUCK JAFFE: Closed-end funds as an asset class suffered mightily when the downturn hit. They rebounded sharply but it was still an asset class that takes some convincing for a lot of investors. As you look ahead and you try to fit your outlook for the industries into the closed-end framework, what would you have investors thinking about it as to why they want to own these assets in a closed-end fund wrapper?

LARRY ANTONATOS: So let's talk about the wrapper first. Closed-end funds are typically leveraged, and leverage amplifies your return, but it is a double-edged sword. When the markets are weak like quarter one 2020, leverage magnifies the downside. When markets recover like we had in the second quarter, and frankly like we expect to have in 2021, leverage is going to magnify your positive returns, so it's a good thing to have. Our outlook is actually very bullish for 2021, we do think the vaccine is going to be great for increasing mobility, it's going to be great for getting people back to work. We do think that the very modest blue wave of the presidency, the house, and the senate all being democrat would make some legislation possible. But frankly the fact that it is a slim margin and not a huge margin means we're going to get some changes but we're not going to have dramatic controversial changes because the margin of control is not so strong. So it is sort of the

perfect situation. We think that closed-end funds should do very well in this environment because of the leverage, and we actually think that real estate and infrastructure will do very well also. Let me just give you some performance of the real estate and infrastructure sectors of the public market versus the broad market in 2020. In 2020, the MSCI World Index was up roughly 16.5%, and the North American component of that was up roughly 20%. A lot of that was driven by technology, so the broad market was very, very strong. Real assets, which in some sense were in the crosshairs of the coronavirus slow down, think about hotels, no one's travelling. Think about shopping centers, no one's shopping. Think about airports, toll roads, people are not moving. So all of those sectors were weak performers in 2020. And despite the rebound we had in Q2, the rebound we had in Q4, if you look at infrastructure equities, calendar year 2020 they were still down roughly 3%, and real estate equities were down roughly 8% in calendar year 2020. So the gap in performance sets you up for a very strong recovery in 2021, really powered by the economy reopening and cashflows starting to grow again in both real estate and infrastructure. So I think the combination of positive performance overall is good for levered closed-end funds, and the valuation opportunities that we see in both real estate and infrastructure, as well as the reopening potential for these asset classes really lead to good outlook for 2021 performance.

CHUCK JAFFE: Larry, really interesting stuff. Thank you so much joining me to talk about it.

LARRY ANTONATOS: Chuck, it's a pleasure to be here.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am your host, Chuck Jaffe, and you can check out my show on your favorite podcast app or at MoneyLifeShow.com. To learn more about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest, Larry Antonatos, portfolio manager responsible for real asset strategies at Brookfield Asset Management, learn more at PublicSecurities.Brookfield.com. The NAVigator podcast is available every Friday, please subscribe on your favorite podcast app and join us again next week to learn more about closed-end fund investing. Until then, stay safe everybody.

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