



Infrastructure Needs Will Fuel Real Asset Plays For Decades

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Gaal Surugeon, portfolio manager at Brookfield Asset Management's Public Securities Group. Read the Q & A below as Gaal says that investing in physical assets like infrastructure and real estate provides inflation protection with stabilized yield potential and long-term growth prospects tied to the economic



cycle, but the short- and mid-term prospects for real assets is also attractive now, given the economic recovery, investments in infrastructure, and the need to fund upgrades to the underpinnings of society like airports, toll roads and more.

Gaal Surugeon

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CHUCK JAFFE: We're talking real assets with Gaal Surugeon, portfolio manager at Brookfield Asset Management's Public Securities Group, this is 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's 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's going to point you in the right direction. And today it's pointing us in the direction of real assets with Gaal Surugeon from Brookfield Asset Management's Public Securities Group. If you want to learn more about the firm and what it does, it's PublicSecurities.Brookfield.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. Gaal Surugeon, welcome to The NAVigator.

GAAL SURUGEON: Thanks for having me, Chuck.

CHUCK JAFFE: Gaal, before we go any further, you'd think real assets would be easy to define, but the truth is when I talk to investment professionals, depending on which firm I'm dealing with everybody kind of has their own things that they include. I mean, there's certain things I think everyone lumps in with real assets, but let's just start there in terms of how does Brookfield define real assets? And then let's talk about why investors benefit from holding them before we move further afield.

GAAL SURUGEON: Sure, Chuck. Yeah, I think you're right. Oftentimes a distinction we make with investors is actually around the word "real". Real in the context of just general investing often refers to an asset that's value is indexed to inflation, and while real assets do have that embedded inflation protection, we specifically define real assets as investments in physical assets such as infrastructure or real estate. And we often refer to these as long life hard assets that form the backbone of the global economy, so think buildings, office, multi-family properties, hospitality, and within infrastructure, something like water, utilities, or even cellphone towers. We do think there are a lot of potential benefits to investors. For example, the stabilized yield potential that you can get investing in hard assets, these assets are often tied to contracted or regulated revenues and that typically provides long term cashflow visibility. You also have the potential for capital appreciation. Real asset businesses tend to benefit from long cycle fundamental drivers which include economic or population growth. As portfolio investors across the spectrum from traditional to alternatives, real assets can offer your portfolio the potential enhanced diversification. Real estate and infrastructure have return characteristics very complimentary to one another in other major asset classes as well. And lastly, and I mentioned this as the concept of real, is the inflation protection potential you get. Many leases or contracts provide for inflation escalators or passthrough of

expense increases onto the consumer or the customer that effectively allows you to participate alongside inflation.

CHUCK JAFFE: That being the case, with what you're looking at in those specific sectors, we just saw passage of an infrastructure bill. We know that should be very good for those real assets but the market sometimes responds the opposite of the way we expect, you get good news and the market responds badly. So how big is that opportunity right now?

GAAL SURUGEON: It's very big. I think it's very much just beyond the scope of the recent infrastructure bill, or the proposed bill, and it really comes down to what the long-term needs are versus where the capital is available to fund those needs. And we see a very big dislocation between the needs of progressing our economy, the global economy from an infrastructure perspective, and the capital that's actually available publicly to do so. And that's a very big opportunity for private capital, private companies who own and operate these assets, to really step in and benefit. And ultimately will bridge the gap between where we are and where we need to be in 10, 20, 30 years from an infrastructure perspective.

CHUCK JAFFE: That being the case, how are you positioning the real assets that you're using? We've got a global recovery that keeps going and getting better. We've got some political movement here. Where are there opportunities and where are situations less advantageous right now?

GAAL SURUGEON: Our investment universe is really rooted in those two key asset classes, it's the real estate and infrastructure sectors, but it really spans the credit spectrum from corporate credit and mortgage-backed securities to common equity of these real estate and infrastructure companies. We currently believe that real estate and infrastructure are poised to benefit from this continued economic recovery, the one that is effectively defined by the post-pandemic environment, and this is particularly the case when you consider the gradual lifting of mobility restrictions globally. Sectors within real estate that appear most attractive both on fundamentals and valuation are residential, office, hospitality, really those that were effectively in the crosshairs of the global pandemic. Within the infrastructure sector, transports are most tied to that reopening thematic, and we do believe that airports and toll roads for example have very strong pockets of opportunity. But they still remain very regionally dependent and that's largely because this global reopening, especially around mobility, hasn't been fairly uneven. But the sector also offers opportunities that are much

more idiosyncratic and that's really where we like to find our opportunities, those opportunities that are tied to regional and sector fundamentals. For example, we think that the broad energy midstream fundamentals are attractive, these are pipelines that transport commodities such as oil and gas. And they're really supported by not only strong demand following this recovery, the post-pandemic recovery, but also constrained supply. It's something we haven't seen in a number of years and that's really a great setup for us within the midstream sector.

CHUCK JAFFE: So is that where you're focusing your attention and your portfolio? Or are you moving to other sectors as well?

GAAL SURUGEON: We're focusing our portfolio allocation with a balanced approach and we're seeking to achieve higher current income, enhanced capital appreciation, inflation protection. So to do so we're remaining well diversified across the real estate and infrastructure sectors in both corporate credit as well as commercial and residential mortgage-backed securities. We're also seeking to further enhance our inflation protection and potential capital appreciation from equity allocations in both infrastructure and real estate.

CHUCK JAFFE: And how big is the impact of inflation right now? Because of course everybody's thinking about it in other areas, thinking about what they're going to face when it comes to holiday spending, but the truth is inflation in some of the real estate sectors has been massive.

GAAL SURUGEON: That's correct, the distinction is very important with respect to inflation. Whether or not it's short term or transitory or longer term or structural, it depends on the time period and it depends on the nature of the price pressure. There is likely going to be a shorter term impact on things like commodity price inflation, and those largely may abate as supply chain disruptions ease. But there's also the potential that we may find more structural inflation, some that are longer-term in nature. What comes to mind is wage inflation. We've seen a tremendous amount of pressure on wage growth, largely tied to the slack in the unemployment market, and that may prove to be more structural in nature. But at the end of the day our sectors, and infrastructure in specific, tends to benefit from that inherent inflation in the economy. We predict roughly 70% of the listed infrastructure space has some type of inflation passthrough or inflation escalator built into either the underlying contracts

or the regulatory nature of certain sectors, and that's where we believe the real asset space is most likely poised to benefit.

CHUCK JAFFE: Gaal, really interesting. Thanks so much for joining me to talk about it.

GAAL SURUGEON: Pleasure to be here. Thanks for having me.

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