CIBC GLOBAL
ASSET MANAGEMENT

Real assets: Portfolio diversification and inflation protection

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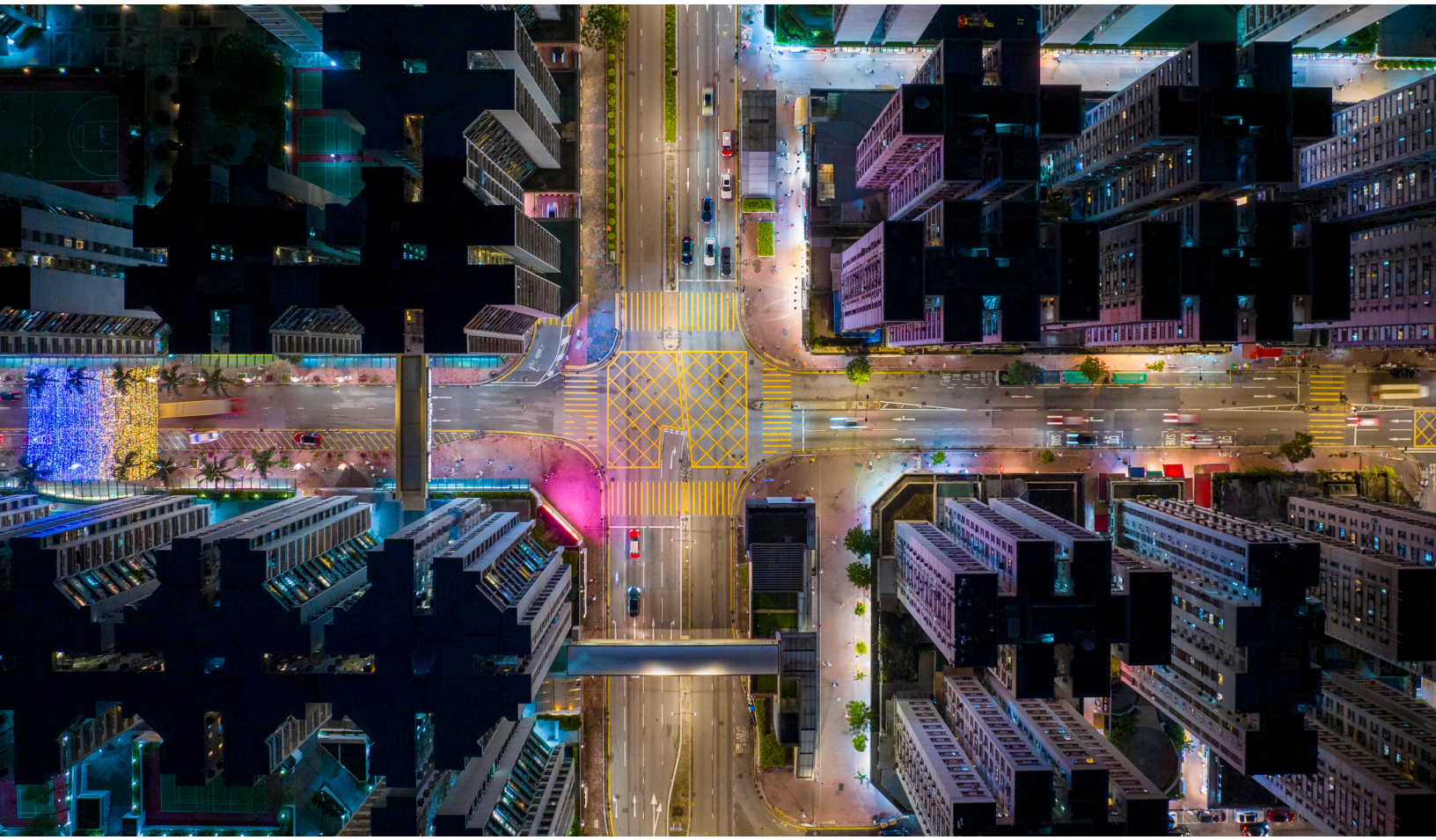

Real assets can play an important role in portfolios by offering potential income, diversification beyond traditional assets, inflation protection, and opportunities for long-term capital appreciation. In this module of CIBC Global Asset Management's Alternatives Academy, the conversation focuses on the main categories of real assets, how they differ from public market exposures, and how advisors can evaluate and incorporate them into client portfolios.

Panelists:

- **Meric Koksal**, Managing Director & Head of Product
- **Gitesh Goyal**, Head of Private Debt and Portfolio Manager
- **Philip Lee**, Executive Director, Manager Research

Understanding real assets

Q: What are real assets?

Koksal: Real assets are tangible assets that investors can directly own or finance — assets you can touch, feel, and see. Key categories include real estate, infrastructure, farmland and timberland, and certain commodities. Unlike traditional public securities, these are physical assets that form part of the everyday economy.

Q: How are real assets different from traditional public investments?

Koksal: One major difference is liquidity. Public equities and bonds can usually be bought and sold daily, while real assets are generally longer-term investments. Another difference is valuation. Because private real assets are not traded on exchanges, their price movements are less affected by daily headlines, retail investor flows, or quantitative trading. Their performance tends to be driven more by the fundamentals of the underlying asset and the contracts attached to it.

Q: Why is it important for advisors and investors to understand real assets today?

Koksal: Real assets can complement traditional equity and fixed income portfolios because they tend to be less correlated with public markets. They can also provide stable long-term cash flow and inflation protection. Infrastructure, in particular, is an area advisors should watch closely because of the massive investment needed globally for population growth, urbanization, aging infrastructure, digital infrastructure, and the energy transition.

Portfolio benefits and diversification

Q: How can real assets contribute to portfolio diversification?

Lee: Real assets offer diversification because their return drivers differ across sectors. That gives advisors and investors a broader opportunity set and introduces economic diversification significantly different from traditional public equities and bonds. Moreover, real assets are not a monolithic group. For example, real estate, farmland, infrastructure, and data centres all behave differently, providing diversification opportunities within the real assets category.

Q: What kinds of benefits can investors potentially get from real assets?

Lee: Depending on the asset, investors may gain access to stable income, long-term growth, and inflation protection. Many real assets produce contractual cash flows, often with inflation-linked features. These assets also tend to be long-lived and difficult to replace, which can support resilience and value over time.

Private real estate

Q: How does private real estate work from a risk-return perspective?

Lee: Private real estate includes both debt and equity strategies. On the debt side, investors may participate through direct lending, ranging from short-term loans to longer-term project financing. On the equity side, the opportunity set is often described in three buckets: core, value-add, and opportunistic.

Core assets are generally high-quality, fully leased properties in prime markets that generate stable income. Value-add properties are performing assets that may need upgrades, repositioning, or refurbishment to improve rents and value. Opportunistic investments involve higher-risk situations such as distressed assets or major redevelopment opportunities, with potentially higher returns but greater execution risk.

Q: How does private real asset investing differ from public market exposure such as REITs?

Koksal: Public vehicles generally offer daily liquidity, lower minimum investment amounts, and lower fees. Private investments are typically longer-term, less liquid, and more specialized. However, private investments can provide access to unique assets, lower correlation to public markets, and the potential for higher long-term returns through value creation and the illiquidity premium.

Infrastructure

Q: Why should retail investors care about infrastructure now?

Goyal: Infrastructure has always been an appealing asset category, but it has traditionally been the domain of institutional investors. However, as real assets become more accessible, retail investors are gaining an opportunity to better optimize their portfolios. Infrastructure can offer a different risk-return profile and meaningful diversification. As access improves, it makes sense for more investors to participate in assets that are essential to the economy and visible in everyday life.

Q: How should investors think about infrastructure opportunities?

Goyal: The opportunity set is broad. It includes pipelines, power plants, renewable energy projects such as wind, solar, and hydro, data centres, fibre networks, hospitals, schools, courthouses, roads, transit projects, and marine terminals. Investors can gain exposure to one segment or to a broader mix depending on the strategy.

Infrastructure spans different risk-return profiles. Some assets have highly contracted cash flows, such as a power plant operating under a long-term agreement, which reduces revenue risk. Other assets, such as toll roads, may involve usage or traffic risk, but can offer higher return potential. Investors can participate either through equity or debt, depending on their objectives and risk tolerance.

Q: What makes infrastructure distinct within real assets?

Koksal: Infrastructure tends to have high barriers to entry. These projects are costly, complex, and difficult to replicate. A hospital, toll road, or utility asset often benefits from limited competition once it is in place. That creates the potential for stable cash flow and long-term growth.

Incorporating real assets into portfolios

Q: How has access to private real assets evolved?

Koksal: Access has improved significantly. Today, some structures offer monthly subscriptions, lower minimum investments, and limited periodic liquidity. That makes private real assets more accessible to wealth clients while still preserving the longer-term nature of the asset class.

Q: How should advisors think about integrating real assets into client portfolios?

Koksal: A useful framework is the why, the what, and the how.

The why focuses on the portfolio role of real assets, such as diversification, inflation protection, stable cash flow, or long-term growth. The what focuses on the type of exposure that best fits the client, whether that means core, core-plus, or opportunistic strategies, and whether the client is better suited to equity or debt exposure. The how focuses on the most appropriate access route, whether through public vehicles, semi-liquid private structures, or longer lock-up private funds.

Q: Is it a matter of choosing public or private real assets?

Koksal: Not necessarily. In many cases, it is not public versus private, but public and private. Public markets may be better suited for clients who need daily liquidity, while private markets may fit those with longer time horizons who want access to differentiated opportunities and potential return enhancement.

Private real assets should generally be treated as long-term structural investments. They are not designed for daily trading.

Q: Why is patience especially important in infrastructure investing?

Goyal: Infrastructure assets are built and monetized over long periods. Investors need to understand that they are committing patient capital. In private infrastructure, solving a problem does not necessarily mean selling the asset. Experienced managers can often work through operational or contractual issues without exiting the investment.

Manager selection and due diligence

Q: Why is manager selection so important in real assets?

Lee: Real assets require hands-on experience. Investors should work with managers who have owned, operated, developed, and managed assets through different market environments. These are complex projects, and strong managers are distinguished not only by their successes, but by how they handle setbacks and operational challenges.

Advisors should look for managers with deep sector knowledge, operating experience, regulatory understanding, and a strong ability to navigate complexity. In private markets, execution matters a great deal because investors are relying on a manager's ability to oversee and improve physical assets.

Koksal: Advisors should also evaluate the product structure. Important questions include how valuations are determined, whether there is third-party validation of valuations, how liquidity is managed, and what the full fee structure looks like, including management and performance fees.

Q: How important are jurisdiction and regulation in infrastructure investing?

Goyal: They are very important. Contract law, regulatory frameworks, permitting, and local market structure all affect risk and return. Canada, for example, can be attractive for contracted infrastructure because of strong support for contract law. In the US, risk can vary significantly by jurisdiction, especially in sectors such as power.

Risks, market cycles, and return expectations

Q: Are real assets affected by market cycles?

Goyal: Core infrastructure is generally less sensitive to market cycles because people still need essential services such as water and power. However, assets with more volume or demand sensitivity — such as airports or container terminals — can be more affected by economic slowdowns.

Lee: Private real estate is still influenced by economic conditions. Interest rates, development costs, discount rates, and cap (capitalization) rates all matter. Real estate is not immune to the macro environment, although some sub-sectors may be more resilient than others.

Q: How should advisors think about risk tolerance and portfolio role?

Koksal: One of the key strengths of real assets is their lower correlation to public markets and their potential to provide a smoother return profile. For advisors seeking high-quality, risk-adjusted returns, this can make them attractive. But allocations still need to reflect the client's liquidity needs, risk tolerance, and investment objectives.

Q: Do different real asset sectors require different return expectations?

Goyal: Yes. Return expectations depend on the specific asset and its contract structure. If revenue is highly contracted, risk is lower and expected returns may be lower as well. If an asset has more exposure to usage, price, or demand risk, returns may be higher to compensate for that added uncertainty.

Final thoughts

Q: What is the key takeaway for advisors and investors?

Lee: Real assets are not a single, homogeneous category. They include a wide range of sectors and strategies with different drivers and portfolio roles. Advisors should think about them as part of a broader toolkit rather than as one uniform bucket.

Koksal: Access to this asset class has evolved significantly. Advisors should make use of the tools, information, and expertise available to them and focus on finding the right product fit for their clients.

Goyal: There is meaningful opportunity today in both infrastructure and real estate, and more investment products are available than in the past. For investors who understand the trade-offs and work with experienced partners, this can be an attractive area of the market.



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