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Investment
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Liquid Real Assets: An Increasingly Appealing Alternative

We explore why now may be an opportune time for investors to consider real assets.

Newton Real Asset Team

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Please read the important disclosure at the back of this material.

Unlock opportunity

What Are Liquid Real Assets?

Liquid real assets are publicly traded securities backed by the underlying value of physical assets. They provide investors with exposure to tangible assets across the real estate, infrastructure, natural resources and commodities sectors. Falling outside the realm of conventional stocks and bonds, real assets are typically considered alternative investments. In recent years, they have become increasingly attractive due to their potential to generate consistent income, provide inflation protection and diversify traditional investment portfolios.

The main categories of real assets include real estate, infrastructure, natural resources and commodities. As the value of liquid real assets is directly tied to the intrinsic value of hard assets, they can typically generate stable income through yields and long-term contracts. Real-asset strategies may also include Treasury inflation-protected securities (TIPS), due to their ability to hedge against unexpected inflation.

The real-estate category consists of investment companies that own buildings, land and related securities. This segment offers investors the opportunity to benefit from rental income and potential property appreciation over time. Real-estate investments can range from residential properties and commercial spaces to industrial warehouses and retail outlets.

Infrastructure investments fund the physical systems and services essential to the functioning of society, such as highways, power utilities, water-supply systems and communication networks. These assets are critical to the operation of modern economies and offer long-term, stable cash flows that are often backed by government contracts. Infrastructure projects typically have lower volatility than other asset classes and can add inflation protection.

Investing in commodities and natural resources provides exposure to the raw materials necessary for industrial and economic activity. Commodities and natural resources include physical goods such as metals, oil, agricultural products and timber. These investments can help protect portfolios against inflation and currency fluctuations while also offering diversification benefits.

“ In our view, real assets are underutilized in global asset allocations though most investors could benefit from their characteristics. ”

What Is the Optimal Real-Asset Allocation?

Investors often ask us about the appropriate amount to allocate to real assets and where they should draw capital from in order to achieve the optimal target mix. As every investor profile is unique, there is no one-size-fits-all approach. Throughout this paper, we aim to present the potential benefits of a real-asset allocation within a traditional 60-40 portfolio. Real-asset investment types vary widely, but collectively they serve a similar purpose: predictable cash flows (i.e., income and yield) produced by their underlying assets, capital appreciation, diversification and inflation protection.

According to the Boston Consulting Group, global assets under management (AUM) are expected to reach \$167 trillion by 2028; real estate, infrastructure and commodities are expected to comprise 6.2% of that total.¹ The California Public Employees' Retirement System (CalPERS) and the Canada Pension Plan (CPP), two of the top ten largest global pension systems, have incorporated real assets into their investment funds. As of June 2024, CalPERS had allocated 15% of its long-term strategic asset allocation to real assets.² In fiscal year 2024, 22% of the net assets in CPP's investment portfolio was comprised of real-asset investments,

including real estate, infrastructure, conventional and renewable-energy assets.³ CalPERS program overview explains that the role of real assets in its investment portfolio is “to provide stable and predictable cash yield, diversification of equity risk, and inflation protection.”⁴ In its 2024 annual report, CPP highlights that its real-asset portfolio “delivers a broad range of exposures, income and capital growth to the Fund, while also providing cash flows that increase with inflation over time.”⁵ In our view, real assets are underutilized in global asset allocations though most investors could benefit from their characteristics.

¹ www.bcg.com; Boston Consulting Group, Global Asset Management Report 2024, 22nd edition, May 2024.

² www.calpers.ca.gov; CalPERS, Real Assets Annual Program Review, Sarah Corr, Managing Investment Director June 20, 2023.

³ www.cppinvestments.com; CPP Investments, Annual Report 2024.

⁴ www.calpers.ca.gov; CalPERS, Real Assets Annual Program Review, Sarah Corr, Managing Investment Director June 20, 2023.

⁵ www.cppinvestments.com; CPP Investments, Annual Report 2024.

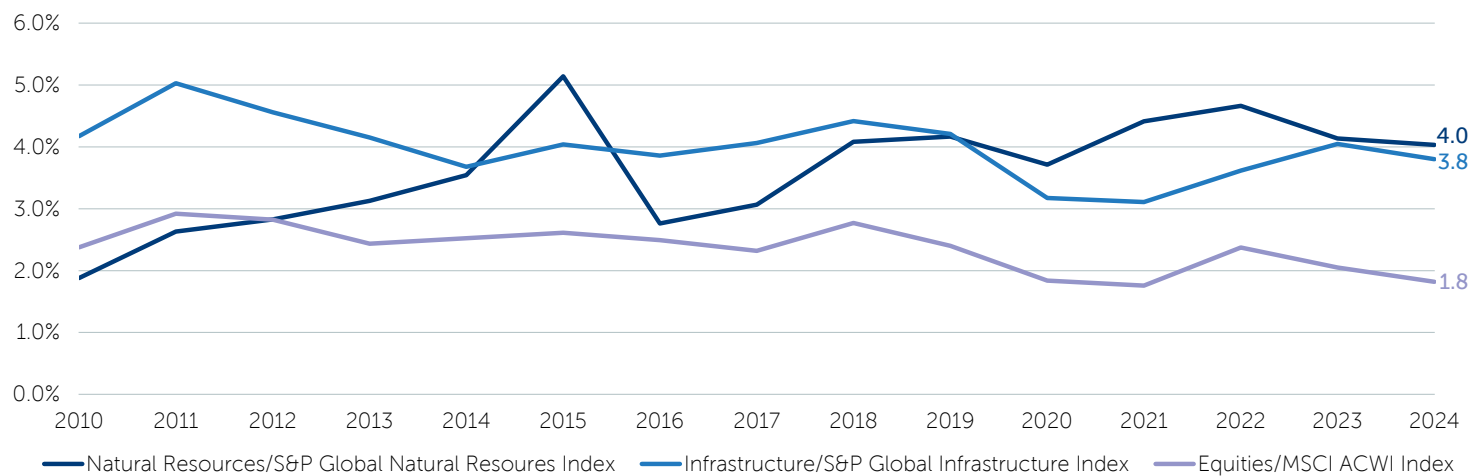
What Are the Key Benefits of a Real-Asset Allocation?

Income/Yield Generation

Real assets can offer investors steady and attractive yields through robust cash flows. The reliability of consistent income streams can be especially valuable during periods of market volatility. In challenging markets, real assets that are tied to long-term contracts or leases can help boost portfolio resilience, delivering above-market income as cash flows are paid out to investors. For instance, infrastructure assets generate revenues through the tolls, utility payments or usage fees that they collect. Commodities can also produce income through direct sales or leasing arrangements.

Notably, listed infrastructure and global natural resources investments, as represented by the S&P Global Infrastructure Index and the S&P Global Natural Resources Index, respectively, have delivered far greater dividend yields over time than global equities, as represented by the MSCI ACWI Index.

Annual Dividend Yields



Source: Bloomberg, December 31, 2010 - December 31, 2024.

Diversification Potential

Another significant benefit of listed real assets is their ability to help diversify investment portfolios, particularly as real-asset investments have had historically low correlations with traditional equity and fixed-income investments, as illustrated in the table below. Real assets may enable investors to achieve a more balanced asset allocation, mitigating the impact of market volatility on their overall returns.

10-Year Correlation, Monthly Returns	MSCI ACWI	S&P Global Natural Resources TR USD	S&P Global Infrastructure TR USD	Bloomberg Global Aggregate
MSCI ACWI	1.00			
S&P Global Natural Resources TR USD	0.81	1.00		
S&P Global Infrastructure TR USD	0.84	0.79	1.00	
Bloomberg Global Aggregate	0.53	0.37	0.58	1.00

Source: Bloomberg, December 31, 2014 - December 31, 2024, Monthly.

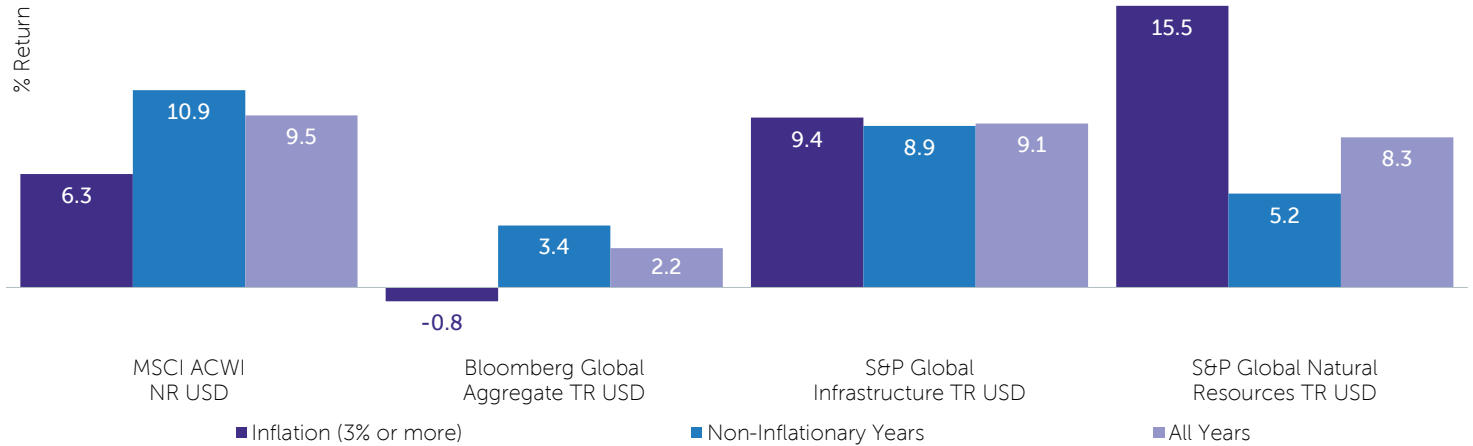
Inflation Protection

Real assets can offer a hedge against inflation as well. As infrastructure assets contractually or directly pass on higher prices to consumers, they tend to increase in value along with inflation, allowing investors to keep pace with rising prices. Commodities also tend to increase alongside inflation, often passing price increases through to consumers.

Historical data demonstrates that real assets can perform well during inflationary periods. For instance, the US inflation rate has increased by 3% or more year-over-year during six of the last 20 calendar years. During these years, listed infrastructure and natural resources equities have appreciated an average of 9.4% and 15.5%, respectively, both outpacing global equities, which have appreciated an average of 6.3% during the same six calendar years. In our view, investing in real assets can enhance portfolio performance relative to global equities and bonds during inflationary periods.

Average Calendar-Year Returns, 20 Years

(Inflationary Years: 2005, 2007, 2011, 2021-2023)

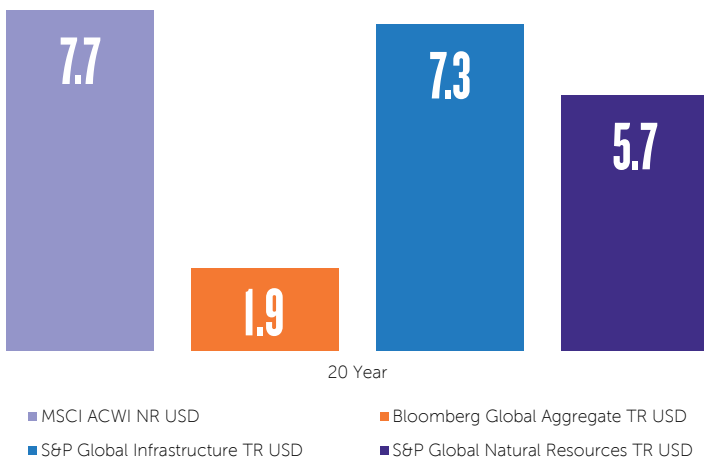


Source: Bloomberg, as of December 31, 2024.

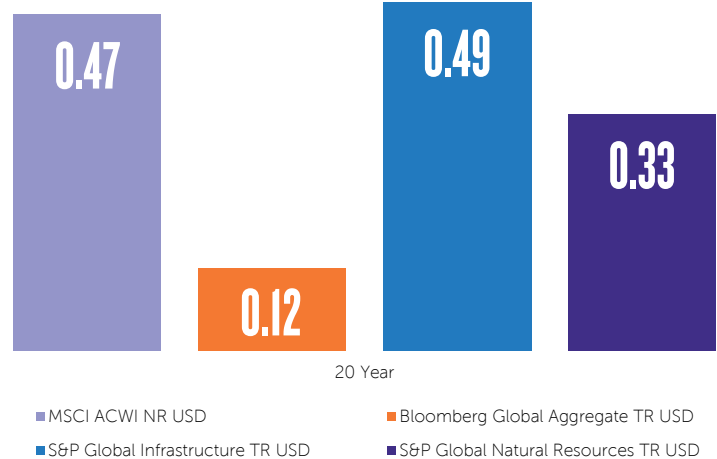
Capital Growth

Over the last 20 years, both infrastructure and natural resources have demonstrated their ability to generate capital growth, well in excess of bonds. These real assets have also delivered solid risk-adjusted returns, as evidenced by the Sharpe ratios in the chart below. For investors seeking to add capital-growth drivers to their investment portfolios, we believe now could be an opportune time to consider real assets.

Annualized Returns



Sharpe Ratio



Source: Morningstar Direct, as of December 31, 2024.

Why Is Now the Time for Real Assets?

Rising Inflation Expectations

Inflation expectations are back on the rise and currently above pre-Covid levels. The University of Michigan Surveys of Consumers reported that year-ahead inflation expectations jumped from 3.3% in January to 4.3% in February, markedly higher than the 2.3%-3.0% range reported in the two years prior to the pandemic.⁶ Long-run inflation expectations also rose, from 3.2% in January to 3.5% in February.⁷ In our view, this inflationary outlook is likely driven in part by tariff policies proposed by newly elected US President Donald Trump.

Growth Drivers

Artificial Intelligence:

We believe there are multiple thematic drivers that could boost demand for real assets in the coming years. For instance, the artificial intelligence (AI) boom is driving increasing demand for power and, likewise, infrastructure, including data centers, utilities, industrials and nuclear energy. We expect continued AI growth to require robust infrastructure support, creating unprecedented investment opportunities. The rapid advancement of AI, and its integration into various sectors of the economy, is likely to require substantial investments in infrastructure to facilitate seamless operation and scalability.

Reshoring: Moreover, the reshoring movement—the practice of bringing manufacturing operations and services, and likewise jobs, back to the US through political and economic incentives—has gained momentum in recent years. Post-election tailwinds and domestic investment agendas have bolstered this trend. Reshoring aims to reduce US reliance on foreign manufacturing and strengthen domestic supply chains, boosting demand for industrial and logistical infrastructure. Federal lawmakers have proposed policies aimed at reducing taxes, lowering energy costs and rolling back regulations, which support reshoring efforts and foster an attractive environment for real-asset investments.

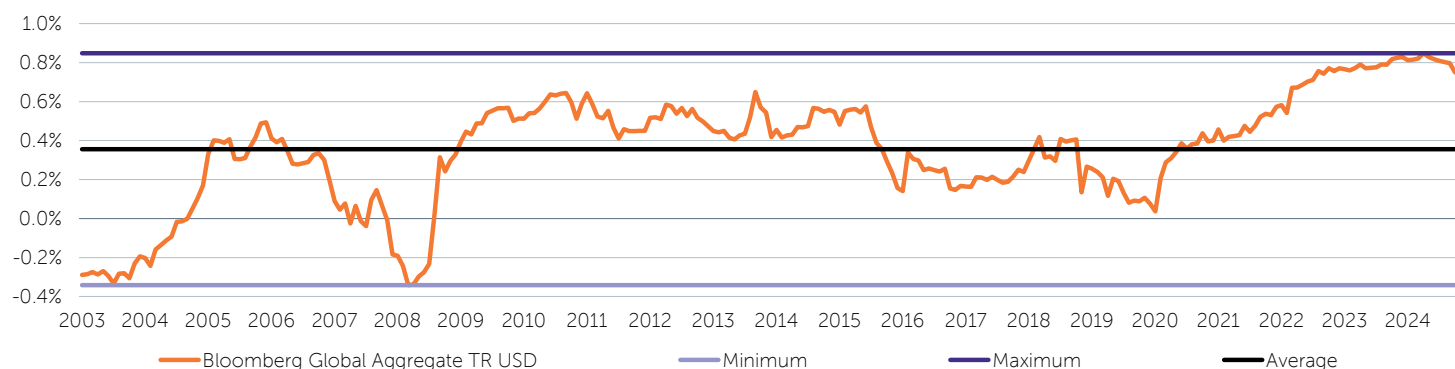
Additional government support:

Legislation such as the Infrastructure Investment and Jobs Act, the CHIPS and Science Act and the Inflation Reduction Act of 2022 has stimulated infrastructure activity, driving a range of sector investments. These policies have been designed to revitalize and expand infrastructure, supporting long-term economic growth and sustainability. The government initiatives provide financial incentives and regulatory support for infrastructure projects related to transportation, energy and digital infrastructure, creating a favorable setup for investors.

Elevated Correlations

Currently, the correlation between stocks and bonds is near an all-time high, as illustrated in the chart below. Real assets offer investors unique investment options with historically lower correlations to these traditional markets. Given that the prices of real assets tend to move relatively independently from the prices of stocks and bonds, real assets can serve as an effective diversification tool. As such, real assets can potentially help to mitigate portfolio risk and enhance a portfolio's resilience against market volatility. During periods of economic uncertainty or market downturns, these investments can provide stability and reduce the overall volatility of an investment portfolio.

Stock and Bond Correlations Near All-Time Highs (3-Year Rolling)



Source: Bloomberg, as of December 31, 2024.

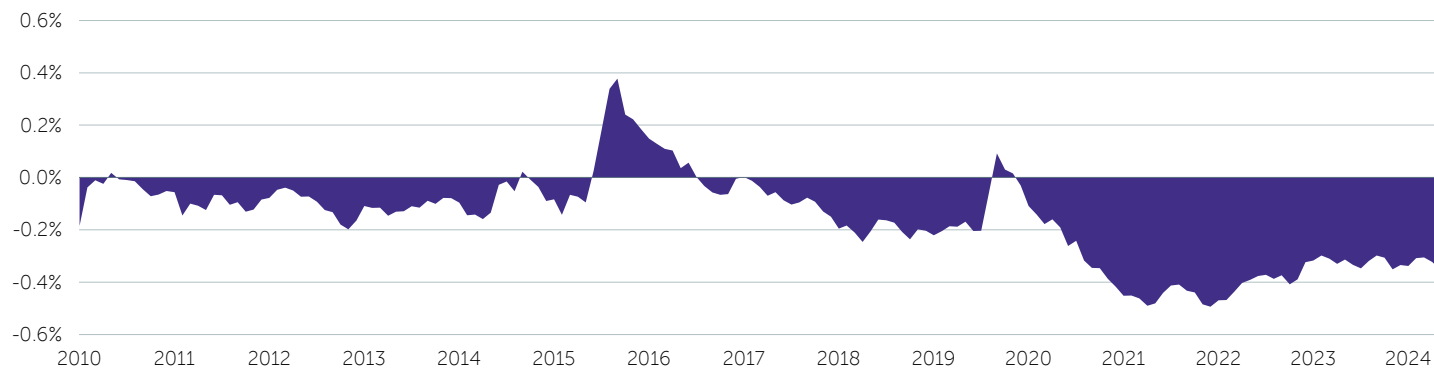
⁶ www.sca.isr.umich.edu; Surveys of Consumers, University of Michigan, February 21, 2025.

⁷ www.sca.isr.umich.edu; Surveys of Consumers, University of Michigan, February 21, 2025.

Valuations at a Relative Discount

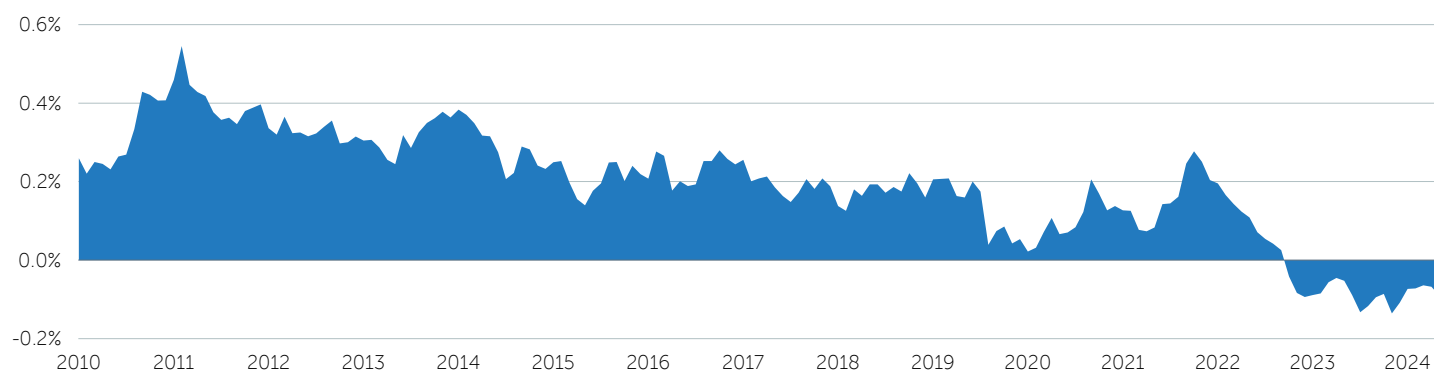
Additionally, current market conditions present an opportunity to acquire real assets at a relative discount. Historically, due to its long-term track record of solid absolute and risk-adjusted returns and its greater dividend yields, infrastructure has traded at a premium to global equities. However, following a period of robust US equity performance, particularly in the technology sector, listed natural-resources and infrastructure securities are both trading at a discount to global equities, as depicted in the charts below. In our view, this presents an attractive entry point for alternative investments, especially given the tailwinds we think could support continued growth for real-assets securities.

S&P Global Natural Resources Index Price-to-Earnings (P/E) Discount to MSCI ACWI Index



Source: Bloomberg, as of December 31, 2024.

S&P Global Infrastructure Index P/E Discount to MSCI ACWI Index



Source: Bloomberg, as of December 31, 2024.

Public Versus Private Investments

Many investors choose to invest in real assets through private investments, in part due to the perception that the private market offers superior returns and lower volatility. However, publicly listed infrastructure assets have actually outperformed their private infrastructure counterparts over the past decade, with a lower standard deviation. In our view, it could be a good time to balance a private infrastructure portfolio with listed infrastructure securities. Investors can potentially benefit from added liquidity, greater transparency to better measure the portfolio's risk profile, and lower fees.

Index	10-year Annualized Return	10-Year Standard Deviation
S&P Global Infrastructure TR USD (Listed Infrastructure)	6.32%	15.49%
Infra300 VW USD (Private Infrastructure)	5.91%	15.80%

Source: Infra300 VW USD, Morningstar as of September 30, 2024.

Newton's Real-Asset-Linked Strategies

At Newton, we have a long track record of managing real-asset portfolios. Our investors currently manage \$2.5 billion in real-asset strategies (as of December 31, 2024).

Global Natural Resources

We currently manage \$2 billion in assets in the Global Natural Resources strategy (as of December 31, 2024), which we launched in July 2008. In our view, the natural-resources sector is an area of the market where active stock picking can generate alpha for investors. To support our clients' investment goals, we seek commodity alpha through our disciplined investment process and active stock-picking approach. We begin our alpha generation process by identifying bullish inflections in cycles driven by cyclical and secular factors. Once we identify those

inflections, we search for the securities in the value chain that exhibit the most risk/reward potential, in our view. To do this, we employ bottom-up, fundamental research, selecting companies with positive leverage to commodities that are aligned with our subsector views and provide optimal idiosyncratic exposure. We invest dynamically across the various natural-resources segments, including integrated energy, forest products, metals and mining, agriculture, steel, oil and natural gas.

Global Infrastructure

Our investors manage \$483 million in assets in the Global Infrastructure strategy (as of December 31, 2024), which we introduced in August 2011. For this strategy, we invest in publicly listed companies with the following key infrastructure characteristics: dividend payments, hard assets, stable cash flows and regulatory oversight. Our expansive universe includes the traditional opportunity set of energy, transports and utilities; however, it incorporates other parts of the infrastructure value chain as well, including social infrastructure such as telecommunications, senior housing, hospitals and real estate. We believe our broader approach to infrastructure

investing (i.e., traditional plus social infrastructure) differentiates us from our peers and enables us to invest in companies with more attractive valuations and dividend-yield opportunities. One of the many draws of infrastructure investing is the dividend yield; as of December 31, 2024, the annual dividend yield for listed infrastructure (S&P Global Infrastructure Index) was 3.8%, over two times the 1.8% yield generated by global equities (MSCI ACWI Index). Newton's Global Infrastructure strategy's annualized dividend yield has exceeded its peers due to our focus on key infrastructure characteristics in the investment process.

Conclusion

In our view, there are numerous benefits to investing in liquid real assets, among which are diversification, inflation protection, yield generation and positive risk-adjusted returns. Thematic drivers, such as AI power demand, reshoring and supportive government policies, bolster the appeal of these assets. As current market conditions exhibit valuation gaps and a high correlation between stocks and bonds, we believe now may be an opportune time to consider a real-asset allocation.

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 Newton Investment Management

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