# Real Assets' Raison D'être

Kathryn Leaf Wilmes, partner and head of infrastructure and real assets at Pantheon, tells *CIO*'s Kip McDaniel why in this investing climate assets owners should be taking a closer look at real assets.

**_CIO_: I'm interested in the origin story behind Pantheon and its focus on real assets: How did it all begin?**

**Leaf:** We were founded in 1982 as the private equity arm of GT Management, and then in 1988, we did a management buyout. Five years ago, the partners alongside Affiliated Managers Group Inc. bought out the firm. That was a very positive transaction—providing both strong equity ownership across a broad group of partners and a platform for long-term growth. We have been investing in real assets since 1997, but that was primarily done via private equity. In 2008, we launched our infrastructure business and became one of the market pioneers in infrastructure secondaries. In 2015, we launched our dedicated real asset business. Today, we have $1.9 billion in global infrastructure capital, and $2.8 billion including real assets. We have a good amount of firepower right now, with some very interesting opportunities—not only in infrastructure secondary markets, but also in metals and mining, and timber secondaries.

**_CIO_: Let's talk about real assets. First, how do you define them?**

**Leaf:** We define real assets as infrastructure, energy, timber, agriculture, metals and mining, and then asset-backed strategies such as aviation and shipping. We exclude real estate because it is a very mature market that most of our clients access via established relationships. Real assets are considered a new, emerging asset class, but the reality is that it has been around for an extremely long time, pioneered by many of the leading endowments and foundations.

**_CIO_: Can you summarize current market dynamics?**

**Leaf:** The key catalyst for interest and capital flow into the asset class is the hunger for yield. We've been in a very low interest-rate environment for multiple years now, and investors need other sources for income generation. There are a number of subsectors in real assets that fit that bill extremely well. Core infrastructure is a great example, as are core real estate and certain asset-backed strategies. This shouldn't come as a surprise, but when substantial capital flows into certain segments of the market, inevitably there is valuation pressure. We are currently seeing that play out in the core infrastructure space.

**_CIO_: What assets would you categorize in infrastructure?**

**Leaf:** There are a couple of key sectors. One is transportation—airports, ports, toll roads, bridges, and some rail opportunities. Then you have energy, which is the largest segment of the market and encompasses midstream infrastructure—the pipelines that transfer oil and gas from the site of production to where it's used—power generation, and transmission, both from renewables and conventional energy sources. One market that we'd love to see open up in the US is social infrastructure, or P3 (public private partnerships).

**_CIO_: Let's discuss strategic partnerships—a vague term, but one I understand is absolutely a theme in this space. What does 'strategic partnership' mean to Pantheon?**

**Leaf:** For us, it's typically where we work very closely to develop a tailor-made program for a client that has a certain amount of scale—where it makes sense to embark on a high level of customization. Different investors want different things out of real assets, and we want to really understand a client's key drivers. The beauty of a strategic partnership is that it can work equally well for both parties. For clients, it can bring them into new markets and enhance their private markets' capabilities. For us, we really get to know and understand what their key objectives are, and then help them build a portfolio strategy. Some of our strategic partnerships stretch back to 1991.

**_CIO_: And what are you seeing now from the secondary markets? I know that's a Pantheon specialty.**

**Leaf:** We were indeed early to spot this market opportunity. We've seen dramatic growth since 2010 when the volume then was relatively insignificant. Last year, we saw over $5 billion in potential opportunity. Yet, it's still a niche market. In our experience, real asset secondaries amount to less than 10% of the volume that one would see in private equity secondaries—which we like. This is a market opportunity that's below the radar.

**_CIO_: Is there a natural line here between real assets and asset owners who, if they're doing their job right, have a 30-year time horizon?**

**Leaf:** It's an asset class that I believe can be extremely well suited to long-term investors. The core thesis to real assets is that you are investing in scarce assets or resources that should grow in value over time as populations expand and urbanize. The cash yield component should provide a level of interim liquidity that can allow pension plans to meet funding requirements while also investing in a long-term appreciating asset. Lastly, some of these sectors will go through cycles and so you need to have a long-term investment horizon. ■

Photograph by Stephen Mallon

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