

How infrastructure turns everyday payments into retirement income

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An electricity bill or highway toll rarely conjures retirement planning. Yet, those routine payments can generate cash flow that directly funds those golden years.

“People use electricity every day. People drive on roads every day,” says Gitesh Goyal, head of private debt at CIBC Global Asset Management.

That enduring demand gives infrastructure its investment appeal. Transportation networks and utilities can produce revenue for decades. Meanwhile, newer opportunities are emerging with the transition to clean energy and the infrastructure needed to power technology and the growth in artificial intelligence.

Access to those opportunities is found through public or listed vehicles, with private funds also opening up assets that have long been an investment focus for pension plans and other institutions.

“You have to understand the nature of the cash flows and the scarcity of the asset,” says Mr. Goyal, who has spent more than 25 years financing and investing in infrastructure, from hospitals and highways to renewable energy projects.

He favours contracted payments from creditworthy governments or operators in jurisdictions with strong legal protections. Established, operating assets – known as brownfield investments – also offer a revenue history to assess, with less construction risk than new developments. A toll road with proven traffic volumes is one example.

Contracts can also provide inflation protection. Investors in infrastructure often benefit from revenue that rises with the Consumer Price Index (CPI). Evidence can be found in the 3.35 per cent dividend yield on the MSCI World Core Infrastructure Index in August, a figure that outpaced CPI prints in several countries (including a 3 per cent rise in Canada).

Darius Muica, senior wealth advisor and associate portfolio manager with Lakeview Wealth Management at Wellington-Altus Private Wealth Inc. in Burlington, Ont., seeks international exposure directly in clients' infrastructure holdings.

Canadians who own a home and resource or energy stocks already have exposure to real assets, he says. Global infrastructure can diversify returns in businesses not as well represented on the S&P/TSX Composite Index.

"What [many Canadians] don't have is contracted and regulated infrastructure," he says.

Several trends point to opportunities beyond established investments in the likes of ports, power transmission and transportation.

Investors can finance renewable generation and the electricity networks needed by an increasingly electrified economy through ownership stakes (equity) or loans (fixed income) to the businesses developing those assets.

Theresa Shutt, chief investment officer at Harbourfront Wealth Management Inc. in Toronto, sees private capital helping finance that expansion, including solar and wind facilities.

"There are a lot of opportunities there for private equity or private credit," she says.

Harbourfront Wealth Management manages both public- and private-market investment pools. Ms. Shutt says investing across different parts of the infrastructure value chain can help advisors balance clients' appetite for growth with a preference for steadier returns.

"Some will provide more direct exposure, more upside, but more volatility," she says. "Others will provide maybe less volatility, a smoother return profile, but ultimately lower returns."

AI adds another source of demand for power and data centres. Mr. Muica favours exposure to the physical infrastructure AI businesses need, giving clients a way to participate without relying on a particular mega-cap or technology provider's individual success.

The reliability of those investments still depends on who's paying for the capacity and the commitments they have made. For example, Mr. Goyal examines whether a data centre has established revenue backed by a financially strong customer.

"A data centre that is fully contracted with Microsoft Corp. has a different risk profile than a data centre with a lower-tiered [operator]," he says.

Advisors can access infrastructure through listed stocks, exchange-traded funds and mutual funds, or through private vehicles that own assets or lend to their operators.

Public holdings offer greater flexibility to buy and sell. Private investments generally require a longer commitment, with withdrawals governed by the fund's terms.

Partnerships between Canadian asset managers and global specialists are widening access to investors. In June, for example, CIBC Global Asset Management launched a private infrastructure fund with J.P. Morgan Asset Management for Canadian accredited investors.

“Large global players bring a tremendous amount of value. They’ve done it for a long time,” Mr. Goyal says.

Those resources can help managers source investments and oversee assets that would be difficult for individual investors to access directly. Mr. Muica examines a manager's scale and experience, including whether large pension plans invest alongside them.

Advisors must also look at what a fund holds, how its revenue reaches investors and, importantly, the redemption terms determining when they can retrieve their capital. A fund may limit withdrawals or suspend redemptions during periods of stress.

“As an advisor, you need to do the work to understand the liquidity needs,” Mr. Muica says.

The apparent steadiness of private investments also requires perspective. Their valuations are updated less frequently than those of listed securities, which can obscure changes in value between appraisals.

“It’s like a home that’s appraised on an annual basis,” Mr. Muica says. “It does not mean there’s no volatility.”

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