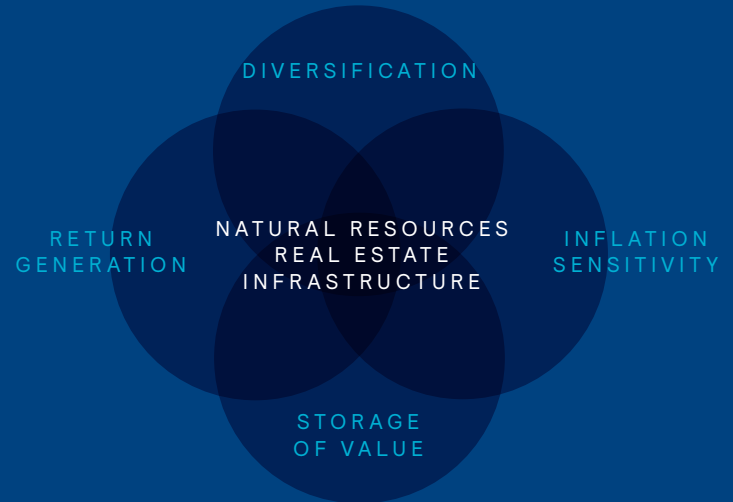


# REAL ASSETS

## WHAT ARE REAL ASSETS?

Real assets are typically physical in nature and include real estate, infrastructure and natural resources. Their unifying characteristic is that investors can access a defensible earnings stream and/or storage of value through a set of difficult-to-replicate underlying physical assets.

## REAL ASSETS: CHARACTERISTICS



## WHAT DO YOU WANT REAL ASSETS TO DO FOR YOU?

Allocations to real assets can play different roles in investment strategy design. To succeed investing in real assets, investors must know what they are trying to achieve and how they will achieve it. Check out a number of issues for investor consideration:

### 2 INCOME GENERATION

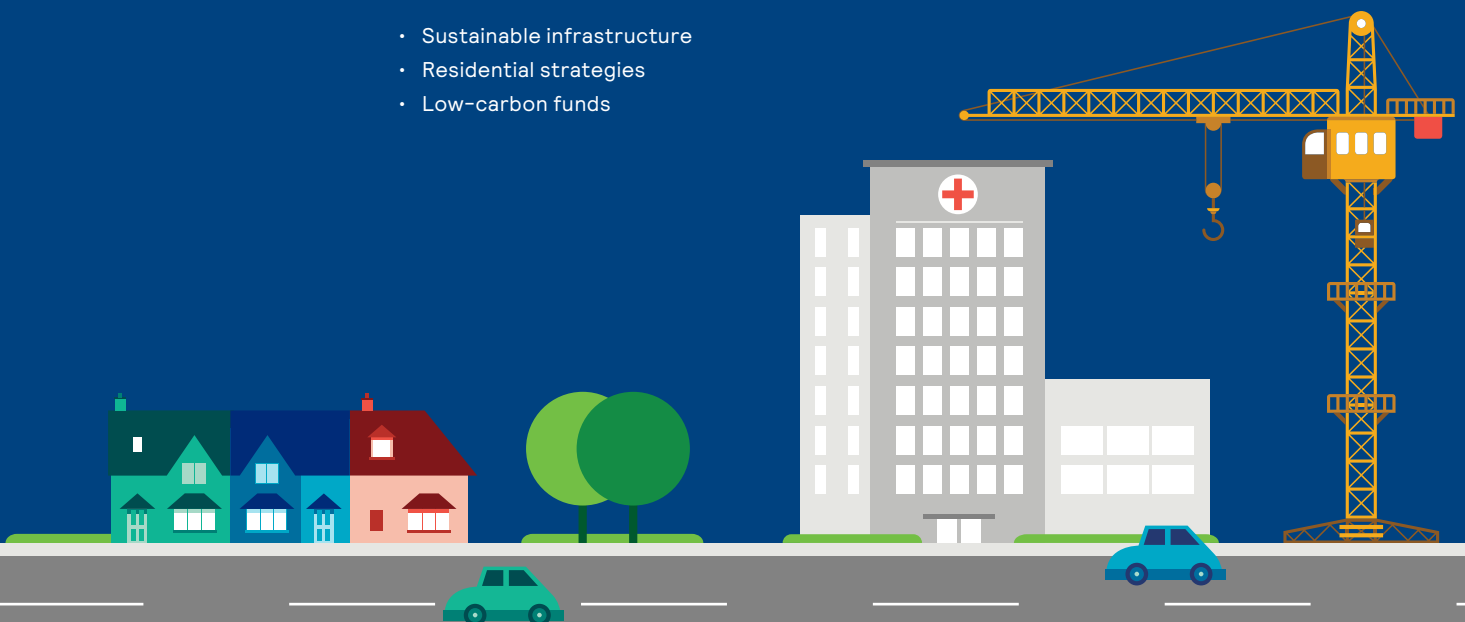
- Steady income stream
- Implicit inflation linkage

### 5 SOCIETAL/ ESG IMPACT

- Sustainable infrastructure
- Residential strategies
- Low-carbon funds

### 3 DIVERSIFICATION

- Risk management
- Potential for higher risk-adjusted returns



## WHAT ARE YOUR CHOICES?

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The explosion of different types of products offered by fund managers means investors have access to a wide array of choices in real assets.



### PUBLIC EQUITY

- Property: real estate investment trusts
- Infrastructure: essential services (education, healthcare)
- Natural resources: energy stocks, MLPs
- Similar risk and return characteristics to equity markets over short term



### PRIVATE EQUITY

- Property: core, value add, opportunistic
- Infrastructure: greenfield and brownfield
- Leveraged exposure and subject to more volatile cash flows



### PUBLIC DEBT

- Property: commercial mortgage-backed securities
- Infrastructure: network rail bonds
- Low volatility of returns
- Stable and secure cash flows



### PRIVATE DEBT

- Senior, junior and mezzanine bonds
- Often unlisted and unrated
- Less volatile than private equity with more stable and secure cash flows
- Illiquidity a strong driver of returns

## WHAT ABOUT FACTOR SENSITIVITIES?

The growth or return-generating portion of a portfolio can be viewed in a factor-based approach that represents a combination of quantitative and qualitative risk/return drivers.

	Asset class/ risk factor	Economic (GDP) growth sensitivity	Inflation linkage	Income/yield oriented	Interest rate (duration risk)	Project development risk	Financing leverage risk	Emerging markets political risk	Illiquidity risk	Regulatory exposure
NATURAL RESOURCES	Energy (gas and oil)	Medium	Low	Low	Medium	Low	Medium	Low	High	High
	Timberland	Medium	Medium	Medium	Medium	Medium	Low	Medium	High	Medium
	Agriculture	Medium	Low	Medium	Medium	High	Medium	Medium	High	Medium
	Mining and minerals	Medium	Medium	Low	Low	High	Low	High	High	High
REAL ESTATE	Core real estate	Medium	Medium	Low	High	Low	Medium	Low	Medium	Low
	Value-added real estate	High	Low	Medium	Medium	Medium	High	Low	High	Low
	Opportunistic real estate	High	Low	Low	Low	High	High	Medium	High	Low
INFRASTRUCTURE	Core infrastructure	Low	High	High	High	Low	High	Low	High	High
	Core plus infrastructure	Medium	Medium	Medium	High	Medium	High	Low	High	High
	Opportunistic infrastructure	High	Medium	Low	High	High	High	Medium	High	High

High Medium Low

Source: Mercer

## WHAT ARE YOUR OPTIONS WHEN CONSIDERING YOUR NEED FOR LIQUIDITY VERSUS TOLERANCE FOR COMPLEXITY?

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Real assets play multiple roles in a portfolio depending on investors' objectives and constraints. Investors should consider the liquidity of their overall portfolios as part of the strategic asset allocation process and investment decisions.

### LIQUIDITY MODELING AND ASSET ALLOCATION



### UNLISTED IMPLEMENTATION CHANNELS

For example: Open-ended funds | Debt strategies | Direct co-invest (larger investors)



### LISTED OPTIONS

For example: Listed natural property resources | Listed property funds  
Listed infrastructure funds | Commodity futures

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Real assets offer valuable diversification benefits and inflation sensitivity.

We believe real assets, on average, remain underrepresented in investor portfolios. As the market evolves, we feel that opportunities for investors will increase across the spectrum of real assets. Though we prefer private real assets, listed real assets are also a viable option for liquidity-constrained investors or for use as a placeholder while building a private program.

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