

## What are Real Assets?



Real assets are tangible, physical assets whose value is derived from their actual use such as apartments, bridges, power plants, and farms. They play a role in our daily lives and serve as key inputs to the financial well-being and growth of communities and countries around the world.

### DIVERSIFIED SOURCES OF RETURN AND INCOME

Real asset investments are designed to offer diversified sources of return and/or income and hedge against inflation. When selecting underlying investments, real asset fund managers are typically focused on:





1. identifying opportunities for growth and/or consistent revenue/income;
2. maximizing the potential of the investment, which may include working with operators and management teams to implement changes that can require significant capital expenditures; and
3. prioritizing downside protection through targeting investments with attractive pricing relative to replacement cost and the prudent use of leverage.

### PRIMARY INVESTMENT CATEGORIES

Real asset fund managers typically specialize in a specific type of asset. They include, but are not limited to:








#### REAL ESTATE

Real estate is physical property such as land or buildings that is leased to tenants in order to generate regular cash flow. Examples include apartments, office spaces, warehouses, retail stores, and malls. Commercial real estate is the largest sub-category of real assets and consists of four main property types: multifamily/residential, office, industrial/warehouse, and retail.

Multifamily/Residential	Office	Industrial/Warehouse	Retail
Housing units: condominiums, apartment buildings, complexes	Corporate/ Office space: large buildings, high-rises, corporate campuses	Large buildings/structures: heavy manufacturing, light assembly, warehouses, research & development, or flex industrial (industrial + office)	Properties focused on the sale of goods and services: cafés, restaurants, banks, gyms, single or multi-tenanted (e.g., a shopping mall)
			





INFRASTRUCTURE

Infrastructure refers to the permanent facilities and installations needed for the functioning of a society or large-scale economic commerce. Examples of infrastructure include bridges, toll roads, airports, power plants, and cell towers as well as community structures such as hospitals, schools, and parks. We can broadly categorize infrastructure into economic and social infrastructure.

Economic Infrastructure	Social Infrastructure
User pays directly for the services provided. Examples include energy, power, transportation, telecommunications, water, and waste services.	Governments pay directly for the services; users pay indirectly via taxes. Examples include schools, hospitals, prisons, parks, monuments, and public transportation.
<div><div> ENERGY</div><div> POWER</div><div> TRANSPORTATION</div><div> TELECOMMUNICATIONS</div><div> WATER AND WASTE</div></div>	<div><div> PUBLIC GOOD FACILITIES</div><div> PUBLIC ASSETS</div></div>

NATURAL RESOURCES

Natural resources are materials from the earth that support our daily lives and needs. Examples of natural resources include oil and gas investments, farmland, woodland, metals, and minerals.

Energy	Agriculture	Timber	Metals & Mining
Oil & Gas: Exploration & Production	Farmland: Crops	Woodlands/trees: Extraction & Production	Elements: Gold/Silver/ Copper Minerals: Coal/Salt
			

REAL ESTATE AND INFRASTRUCTURE: STAGES OF DEVELOPMENT

When investing specifically in real estate or infrastructure funds, there are four types of investment strategies that a fund manager can deploy. These strategies are differentiated by the asset’s current stage of development and the level of work needed to get it to a position where it is generating consistent income or returns.

Level of Risk/Return Potential ↓	Strategy Type	Current State	Level of Risk	Primary Investment Goal
	Core	Good condition	Low - Medium	Income
	Core Plus	Needs some improvement	Medium	Income and Capital Appreciation
	Value-Add	Requires renovation	Medium - High	Capital Appreciation
	Opportunistic	Ground-up development or major overhaul	High	Capital Appreciation



## BENEFITS

- Real assets can offer the potential for current income and consistent long-term cash-flows.
- Real assets can generate enhanced returns and potentially hedge against inflation.
- Historically, real assets have demonstrated low levels of correlation and have therefore offered relative stability in volatile market conditions to the public equity markets.<sup>1</sup>
- Real assets are versatile tools for building diversified portfolios.



## KEY RISK CONSIDERATIONS

Real assets span multiple sub-categories and asset types. Key risk considerations may include, but are not limited to, the following:

- **Underlying Asset Risk:** Due to the physical nature of real assets, investors may be exposed to a wider range of potential risks including macroeconomic, political, regulatory, environmental, or commodity risk. Investors should understand the risks associated with the underlying investments in a real asset fund before investing.
- **Liquidity:** Real asset investments have a longer hold period than many other private market assets. Most real asset funds are structured with terms of at least 8 to 10 years, and it is common to see infrastructure funds with terms of up to 15 years.
- **Interest Rate Risk:** Real assets can be sensitive to interest rates. An increase in interest rates may erode the relative attractiveness of the income generated and may lower the value of the underlying asset.
- **Credit Risk:** Real asset investments may involve leasing to, or contracting with, non-investment grade counterparties, and there may be a greater risk of nonpayment of scheduled payments or default, which may affect the return to investors.
- **Transparency:** Real asset funds may not offer the same level of transparency as traditional investments, which are required to provide frequent and full disclosures.
- **Fees:** Real asset fund managers charge an annual management fee, typically 1-2% of assets under management. Fund managers also collect performance fees, known as carried interest, which traditionally represent 10-20% of any value appreciation or aggregated profits generated by the fund.
- **Leverage:** Real asset funds may use some form of leverage, which offers the potential for higher returns, but also increases the downside risk.

**Please contact your financial professional or a fund manager to learn more.**

1. Source: Hamilton Lane, 1999 – Q3'2020.





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