

# The Potential Real Benefits of Real Assets A Case Study

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Real assets – defined as tangible assets that have intrinsic value due to their physical properties – are attracting increased attention from investors seeking their unique risk-return characteristics. Real assets have outperformed other asset classes over full market cycles, often outperforming traditional stocks and bonds while delivering a higher level of income.<sup>1</sup> They can offer a combination of attractive total and risk-adjusted returns, diversification, inflation protection, and yield. They can also provide exposure to durable macroeconomic trends such as population growth, urbanization, expansion of the industrial and digital economies, and increasing demand for renewable energy. In addition, many investors are now using real assets to pursue specific outcomes such as inflation-protected income rather than simply seeking to outperform benchmarks. By blending real assets into a portfolio of traditional stocks and bonds, investors can pursue the capital appreciation and income they seek in a more risk-controlled fashion. Utilizing real assets can help achieve the objective of generating global equity-like returns but with shallower drawdowns and the potential for higher income.

This paper highlights the following:

- Defining real assets and how to access them
- Understanding their investment characteristics
- The growing use of real assets in investor portfolios
- Key benefits and risks of investing in real assets

## **Real Assets Defined and How to Access Them**

While there is no standard definition for real assets, most investors recognize they are a broad category that includes real estate, infrastructure, natural resources, commodities, agriculture, midstream energy, precious metals, and timber, among other things. There is a scarcity value embedded into the pricing mechanism of many real assets because they are physical assets with a finite and often limited supply.<sup>2</sup> As population and economic growth (along with other factors) drive increasing demand for these assets, supply is frequently unable to keep up, which can place upward pressure on pricing, especially in the short term. Simply put, these are high value physical assets that are essential for everyday life.

There are two primary means to access exposure to real assets – directly through investments in the physical assets themselves and indirectly through publicly listed securities of companies that own, operate or produce real assets. Many choose the former route for its potential diversification benefits and predictable cash flows. However, direct investments in real assets typically require substantial capital and tend to be relatively illiquid. By choosing the listed securities path, investors can gain exposure to these asset classes with the added benefits of liquidity, transparency, daily pricing, and lower expenses.

For many investors, the core components of an allocation to real assets include real estate, infrastructure, and natural resources. Companies in these sectors typically own and operate the must-run hard assets that provide essential goods and services. As investors have come to a fuller appreciation of the underlying performance drivers for real assets, they have increased their allocations over time, in our view. We believe these real asset classes have grown substantially in recent years, driven by economic and population growth, urbanization, privatization, the replacement of aging assets in developed markets, and the buildout of essential services in emerging markets.

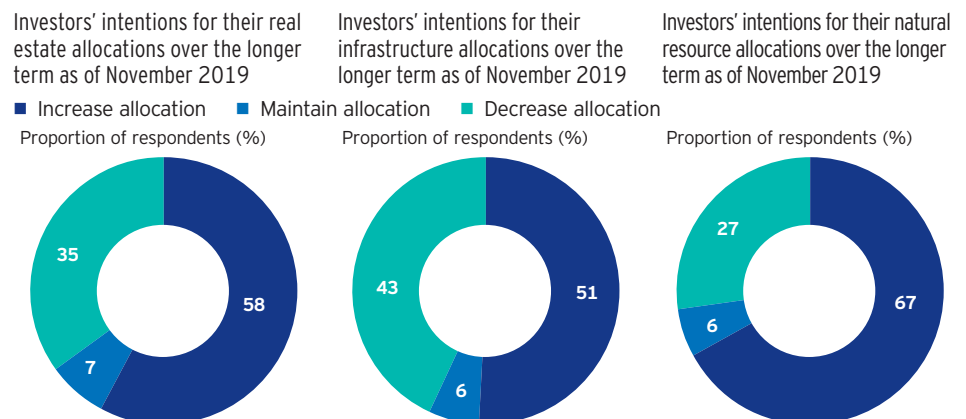
## Institutional Interest in Real Assets Remains High

Institutions often use real assets to buffer their portfolios against the effects of inflation, currency movements, and other macroeconomic factors. They have been increasing their allocations over the last two decades, in part because they recognize that real assets can help deliver a higher yield than traditional equities combined with more consistent cash flows, positive sensitivity to inflation, and superior risk-adjusted returns.<sup>3</sup> For core areas like real estate, infrastructure, and natural resources, the predictable cash flows and inflation protection offered by these asset classes have appealed to pension funds, sovereign wealth funds, and life insurers seeking to offset their long-term liabilities while earning an attractive yield. A similar dynamic persists today as institutions face uneven economic growth, low to negative real interest rates, and elevated volatility.

According to a recent survey of almost 400 institutions, two-thirds of respondents have allocated capital to real estate while one-third have allocated to infrastructure, and one-third have allocated to natural resources.<sup>4</sup> Significantly, the average target allocation for these institutional investors was 9.0% of their total assets to real estate, 4.5% to infrastructure, and 3.5% to natural resources.<sup>5</sup> The size of these target allocations makes clear that institutions consider these real asset exposures to be critical components of their overall portfolios. (In contrast, retail investors typically have a much smaller average allocation to real assets - on the order of 2.5% for these three core sectors combined - which suggests that they remain meaningfully under-allocated to real assets compared to institutions.<sup>6</sup>)

In addition, three-quarters of the survey respondents reported that their real estate, infrastructure, and natural resource investments met or exceeded their expectations in 2019.<sup>7</sup> This suggests to us that the percentage of investors using these asset classes and the size of their allocations may grow over time. As shown below, 35% of respondents planned to increase their allocation to real estate over the long term compared to 43% for infrastructure and 27% for natural resources.<sup>8</sup> (See Chart 1). We recognize that many institutional investors take a private markets path to investing in real assets, but we also believe that interest is growing in listed securities investments as well.

**Chart 1: Investors' Intentions for Core Real Asset Allocations**

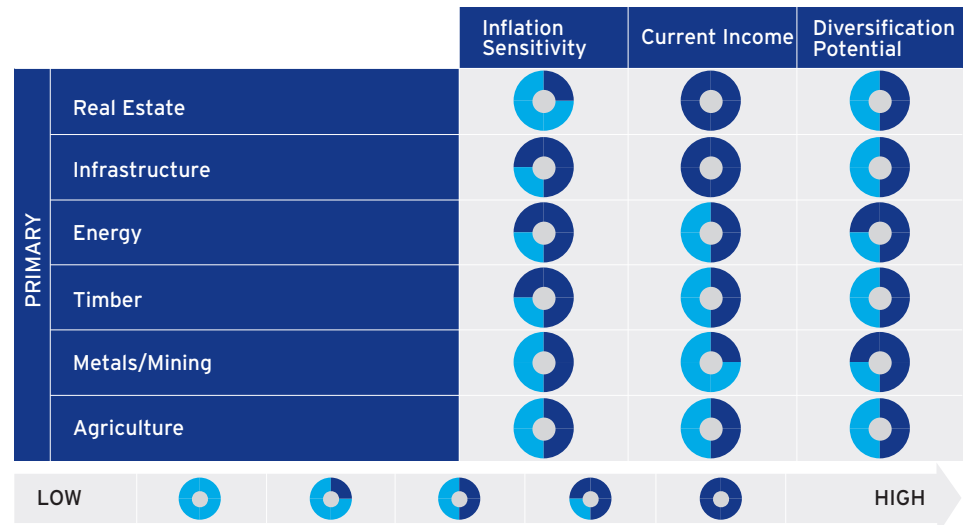


Source: "Preqin Investor Outlook: Alternative Assets," 1H 2020. Long term defined as over the next ten years. For illustrative purposes only.

## Potential Benefits of a Blended Approach to Real Assets

Real assets have risk/return sensitivities to economic growth, inflation, and capital markets performance that differ from those of traditional stocks and bonds. This means they can offer capital appreciation, current income, inflation hedging, and diversification properties that are not available from traditional assets. Analyzing the core real asset categories individually makes clear that each offers potentially attractive attributes but also has inherent tradeoffs. For example, some are more sensitive to changes in inflation while others have greater potential for capital appreciation, income, or diversification. (See Chart 2.) In addition, these sensitivities can vary over time. Each real asset class has exhibited periods when it has outperformed or underperformed on one measure or another. As a result, a well-diversified blend of real assets may help investors mitigate this time-varying exposure risk and navigate the tradeoffs of individual categories, potentially delivering better results over the long term on the objectives of diversification, risk-adjusted returns, and inflation protection. For plan sponsors seeking to minimize menu clutter, a thoughtfully blended real assets option may provide a streamlined solution that encourages sensible asset class diversification. For plan participants, access to real assets may help to increase confidence in their ability to achieve their financial goals during a period of heightened uncertainty in both the economy and the capital markets.

Chart 2: Characteristics of Real Assets



Source: Invesco Real Estate, 12/31/2020. For illustrative purposes only. This does not constitute a recommendation of the suitability of any investment strategy for a particular investor and should not be relied upon as the sole factor in an investment-making decision.

In our view, the differing performance drivers of real assets help to explain the return dispersion of individual asset classes and the shifts in market leadership in any particular year. (See Chart 3.) Some asset classes are more impacted by cyclical factors such as economic and job growth, consumer spending, and trade, while others are more tied to secular themes such as growth of the digital economy or increasing demand for renewable energy. In addition, different revenue models and varying contract/lease terms provide differing degrees of insulation from changes in the economy. In short, the breadth of return dispersion and frequency of changes in leadership suggest that a blended approach to real assets may work well for many investors.

Chart 3: Real Asset Sector Performance

■ Global Infrastructure ■ Timber ■ Real Estate ■ Energy ■ Metals & Mining ■ Agriculture

Calendar Year Leadership

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Highest Return	77.63 Metals & Mining	23.12 Metals & Mining	13.75 Infrastructure	28.65 Real Estate	19.79 Timber	16.34 Infrastructure	0.05 Real Estate	56.81 Metals & Mining	34.38 Timber	-4.74 Real Estate	29.69 Energy	25.39 Metals & Mining
	59.09	22.63	4.86	22.01	15.89	15.89	-7.45	18.06	33.29	-7.87	28.69	20.39
	38.26	20.4	-5.82	16.01	14.43	7.00	-11.08	13.02	18.05	-13.74	23.49	9.34
	37.96	16.44	-11.75	14.80	5.14	2.13	-14.40	12.52	15.79	-14.75	23.06	-6.97
	34.24	12.46	-16.95	1.40	4.39	-17.51	-39.24	12.32	11.42	-17.12	21.78	-8.18
Lowest Return	11.22 Energy	1.91 Energy	-27.36 Metals & Mining	-1.37 Energy	-14.53 Metals & Mining	-44.06 Energy	-41.54 Energy	4.99 Real Estate	6.39 Energy	-17.69 Timber	19.16 Timber	-46.28 Energy

Sources: Invesco Real Estate, S&P and FTSE EPRA Nareit using data from Bloomberg and StyleADVISOR as of 12/31/20.

Note: Global infrastructure represented by Dow Jones Brookfield Global Infrastructure Index; timber represented by S&P Global Timber and Forestry Index; global real estate represented by FTSE EPRA Nareit Developed Index; energy represented by S&P GSCI Energy Index; metals & mining represented by MSCI World Metals and Mining Index; agriculture represented by S&P Global Agribusiness Equity Index. Past performance does not guarantee future results. An investment cannot be made directly in an index. For illustrative purposes only.

## Commonalities Across Real Assets

## Potential Benefits of Allocating to Real Assets

Most publicly listed companies in the real assets universe are concentrated in three sectors – real estate, infrastructure, and natural resources. Although these sectors are comprised of diverse industries with differing business models, the companies themselves typically share several key characteristics:

- Ownership of high-value physical assets that generate stable and predictable cash flows.
- Relatively inelastic demand for the goods and services these assets provide.
- Quasi-monopolistic business models that often benefit from incumbency and high barriers to entry.
- Contractual or regulated revenues often linked to inflation.
- Potentially attractive yields.

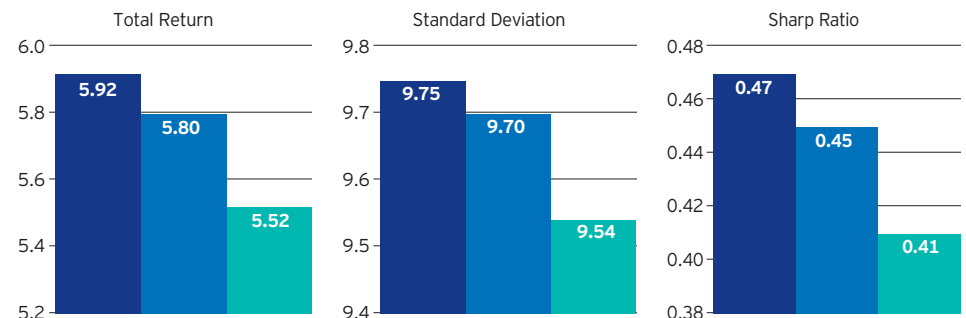
These dynamics may translate into a combination of predictable revenues and cost structures combined with the potential for growing cash flows, earnings, and distributions.

We believe that an allocation to real assets can potentially enhance traditional stock and bond portfolios in several ways:

**Competitive returns.** Real assets have historically generated attractive total returns across the full economic cycle.<sup>9</sup> (See Chart 5.) In fact, both real estate and infrastructure companies have delivered competitive returns to US and global equities over the last two decades and have outpaced the performance of US and global bonds.<sup>9</sup> Natural resource companies have also performed well over much of this period but were negatively impacted by a significant decline in commodity prices from 2008 to early 2016, due primarily to the global financial crisis and a decline in Chinese demand. Nonetheless, investors who thoughtfully blended real assets into their traditional 60/40 portfolios over the last two decades could have achieved higher total returns, lower volatility, and attractive risk-adjusted returns. (See Chart 4.)

**Chart 4: Improving Performance Potential in 60/40 Portfolios Through Real Asset Exposure**

- 60% Equities / 40% Fixed Income / 0% Real Assets
- 50% Equities / 40% Fixed Income / 10% Real Assets
- 40% Equities / 40% Fixed Income / 20% Real Assets

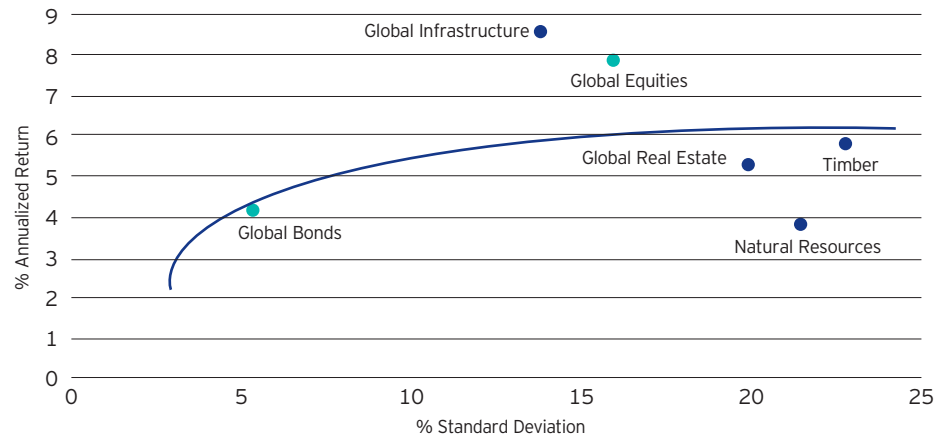


Source: Style Advisors. Data from September 30, 2000 - September 30, 2020. Equities represented by MSCI World Index. Fixed income represented by Bloomberg Barclays Global Aggregate Bond Index. Real assets is an equal weight custom index made up of real estate, commodities, infrastructure and natural resource equities. Real estate represented by FTSE Nareit Equity REITs Index for January 1996 through February 2005 and then FTSE EPRA/NAREIT Developed Real Estate Index for March 2005 through current. Natural resource equities represented by 50% Dow World Oil Index and Gas & 50% Dow World Basic Materials Index for January 1996 through May 2008 and S&P Global Natural Resources Index from June 2008 through current. Infrastructure represented by 50% Alerian MLP Index and 50% Dow Jones World Utilities for January 1996 through July 2008 and Dow Jones Brookfield Global Infrastructure Index for August 2008 through current. Commodities represented by S&P GSCI Index for January 1996 through July 1998 and then Bloomberg Commodity Total Return Index for August 1998 through current. All information presented prior to the Alerian MLP Index's inception date, June 1, 2006, is back-tested. Back-tested performance is not actual performance, but is hypothetical. Although back-tested data may be prepared with the benefit of hindsight, these calculations are based on the same methodology that was in effect when the index was officially launched. Index returns do not reflect payment of any sales charges or fees. Performance, actual or hypothetical, is not a guarantee of future results. An investment cannot be made in an index. Indexes are unmanaged and it is not possible to invest directly in an index.

**Improved positioning along the efficient frontier.** As the data on the following page makes clear, the listed real assets capital structure is efficiently priced over the longer term. (See Chart 5.) This means that investors seeking greater potential returns must generally incur more risk, and the relationship is non-linear in that there is a diminishing marginal return to adding more risk to a portfolio.<sup>10</sup> The efficient frontier shown in the chart represents the optimal mix for potential portfolios so that they generate the highest expected return for a given level of risk, or alternatively, they incur the lowest risk for a given level of expected return.<sup>11</sup> By venturing beyond traditional stocks and bonds and into real assets, investors can better control where their portfolios lie in relation to the efficient frontier and more precisely choose their preferred levels of risk and expected return.

### Chart 5: Listed Real Assets Efficient Frontier

Historical Risk and Return  
December 2005 - November 2020



Sources: Morningstar Direct and StyleADVISOR. Global equities are represented by MSCI World Index, Global bonds by Bloomberg Barclays Global Aggregate Bond Index, global real estate by FTSE EPRA Nareit Developed Index, Global Infrastructure by Dow Jones Brookfield Global Infrastructure Index, timber by S&P Global Timber and Forestry Index and natural resources by S&P Global Natural Resources Index. The S&P Global Timber Index inception on Aug. 13, 2007 and the S&P Global Natural Resources Index on May 27, 2008. All information presented prior to the Index's inception date is back-tested. Back-tested performance is not actual performance, but is hypothetical. Although back-tested data may be prepared with the benefit of hindsight, these calculations are based on the same methodology that was in effect when the index was officially launched. Index returns do not reflect payment of any sales charges or fees. Performance, actual or hypothetical, is not a guarantee of future results. An investment cannot be made in an index.

**Diversification.** One of the enduring lessons from the global financial crisis is that investing across a style box matrix may not provide sufficient diversification during periods of extreme volatility or market stress. The reason why is that during periods of acute stress, correlations among the various style boxes tend to converge because the economic drivers for the underlying securities tend to be quite similar. Compounding the problem, correlations can vary over time as economic conditions change. It is also true that listed real assets tend to trade in similar patterns to public equity markets, particularly over the short term. In the long run, however, real asset returns are primarily driven by supply/demand fundamentals, growth profiles and the distinct cash flows of the underlying assets. Since real assets have different return drivers, they tend not to move in lockstep with traditional investments, potentially leading to more effective diversification during market dislocations. For example, rents from real estate and cash flows from infrastructure are less sensitive to the business cycle than earnings from broader equity markets.<sup>12</sup> Real assets can also provide investors with exposure to different stages of the economic cycle relative to traditional stocks and bonds.<sup>13</sup>

In addition, many listed real assets share aspects of both stocks and bonds - responding to economic growth and other macro drivers like equities, but with yields and contractual cash flows that give them certain bond-like qualities. On the latter point, both real estate and infrastructure tend to be more sensitive to credit conditions due to their capital-intensive business models and balance sheet structures. All of this helps to explain why real assets tend to exhibit low to moderate correlations with traditional stocks and bonds and with one another. (See Chart 6.)

### Chart 6: Real Assets Can Offer Diversification Benefits

Real assets have historically generated low to moderate correlations to traditional assets and to one another

18-Year\* Correlation Coefficients

12/31/02 - 12/31/20

	US Stocks	US Bonds	Real Estate	Infrastructure	Natural Resources
US Stocks	1.00	0.02	0.71	0.77	0.74
US Bonds	0.02	1.00	0.27	0.29	0.02
Real Estate	0.71	0.27	1.00	0.69	0.48
Infrastructure	0.77	0.29	0.69	1.00	0.72
Natural Resources	0.74	0.02	0.48	0.72	1.00

Source: Bloomberg L.P. as of 12/31/20.

\*Longest common time period available.

US stocks represented by S&P 500 Total Return Index; US bonds represented by Bloomberg Barclays US Aggregate Total Return Index; real estate represented by FTSE Nareit All Equity REITs Index; infrastructure represented by Dow Jones Brookfield Global Infrastructure Total Return Index; natural resources represented by S&P North American Natural Resources Sector Total Return Index. An investment cannot be made into an index.

**Inflation hedge.** One of the defining characteristics of most real assets is their positive sensitivity to inflation, which makes them potentially valuable in helping to protect investors against the erosion of their future purchasing power. This inflation sensitivity is driven in large part by the pricing power of the underlying real assets. During inflationary periods, inelastic demand from customers for many real assets means those customers must typically absorb subsequent price increases.<sup>14</sup>

There are certain subtleties investors should consider when attempting to hedge a portfolio against inflation, in my view. One involves distinguishing between expected and unexpected inflation. In this regard, if actual inflation matches expected inflation, many traditional assets - whose prices reflect expected inflation - should adequately compensate investors for inflation risk. However, if actual inflation diverges from expected inflation, then real assets - whose performance tracks actual inflation - may provide a better inflation hedge. This is true regardless of whether the source of the inflation is demand-pull or cost-push.<sup>15</sup> As indicated in Chart 7, during periods of unexpected inflation, real assets have historically outperformed traditional stocks and bonds. In fact, real assets performed better than their long-term averages, in contrast with the typically reduced performance for stocks and bonds.

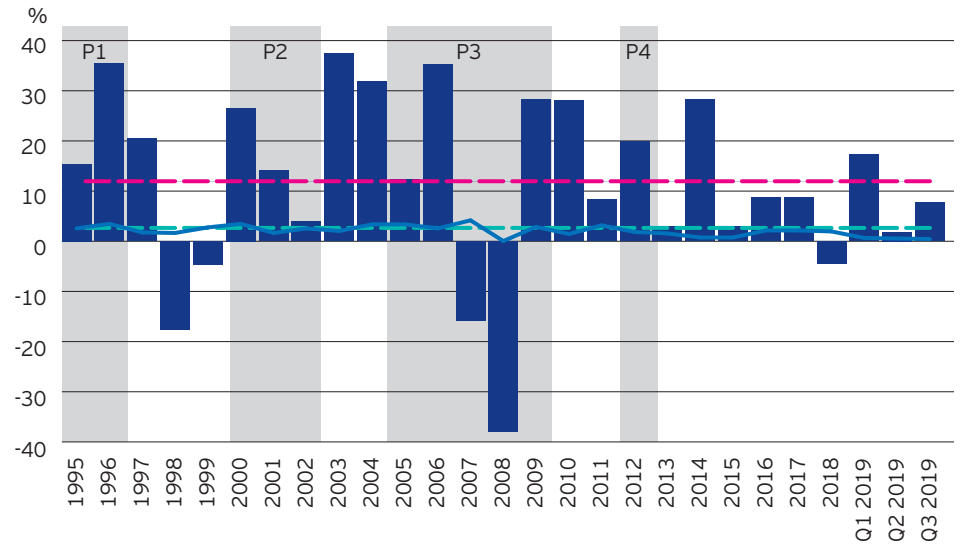
Stepping back for a moment, the linkage between real assets and inflation can differ depending on the asset class. For example, some real assets can drive inflation through rising commodity, energy, and raw materials prices. (In fact, many commodities and raw materials are themselves components of inflation measures.) Other real assets have intrinsic values that are tied to rising operating or replacement costs.

■ **Real estate.** Listed real estate (including real estate investment trusts or REITs) has historically helped to insulate portfolios against inflation; part of the reason why is that in an inflationary environment, the rising cost of land, labor, materials, and borrowed capital can cause developers to increase the price of new properties. In addition, these rising costs can raise the economic threshold for new development, which in turn can limit the amount of new supply coming to market. This tightening of supply often gives landlords the pricing power needed to raise rents to tenants. In addition, many commercial leases (especially in the retail and office sectors) have rent escalators tied to inflation. This means that landlords can benefit from automatic rent increases, regardless of whether the inflation was expected or unexpected. Not surprisingly, listed real estate has historically delivered returns above the prevailing rate of inflation. (See Chart 7.) Part of these returns is driven by the attractive yield these companies may deliver, which itself is a function of their minimum distribution requirements to maintain their tax status as pass-through entities. To satisfy their mandatory distribution requirements, REITs generally increase their payouts as rents rise over time, which historically has resulted in steady dividend growth. These factors can help to explain the favorable relative performance of listed real estate compared to traditional stock and bonds during periods of rising inflation.

### Chart 7: Listed Real Estate as Potential Inflation Hedge

Performance in different inflationary environments  
Listed US real estate performance and US CPI, 1995 - Q3 2019

■ US-listed real estate ■ US CPI inflation  
■ US CPI inflation (LTA) ■ US-listed real estate (LTA)



US-listed real estate annual returns during periods where inflation surpassed the long-term average

	Period	US CPI	US Real Estate
Long-term average	Last 30 years	2.60%	12.40%
Period (1)	1995 - 1996	2.90%	25.30%
Period (2)	2000 - 2001	3.10%	20.10%
Period (3)	2004 - 2008	3.20%	5.10%
Period (4)	2011	3.10%	8.30%

Note: CPI reflects CPI-Urban Consumer, All Items indexed to 1982. Analysis relates to US-listed real estate performance, represented by the FTSE Nareit All Equity Index and includes all property types. LTA=Long-term average, 1988 - 2018. Source: Invesco Real Estate using data from the US Bureau of Labor Statistics, Moody's Analytics, and FTSE Nareit as of January 2020 (data through Q3 2019). Past performance is not a guarantee of future results. An investment cannot be made directly in an index.

■ **Infrastructure.** Listed infrastructure, which offers a return profile similar to defensive equities, can also provide an effective hedge against inflation.<sup>16</sup> In this regard, infrastructure providers often have longer-term contracts or regulated revenue models that include periodic escalators linked to inflation. That link can be to realized inflation, operating expense inflation, or both. In any case, as inflation rises, their revenues and cash flows do as well, thereby providing an inflation hedge. (See Chart 8). A classic example of this dynamic can be seen in the midstream energy sector, where most investments are made through master limited partnerships (MLPs). Many MLPs operate pipelines, and the tariff rates for those assets are often expressly linked to inflation and may help investors to mitigate risks against both expected and unexpected inflation. Similar inflation linkages are common in the airport, toll road, and utility sectors, among others.

**Chart 8: Inflation Pass-Throughs for Certain Infrastructure Sectors**

	Midstream Energy (Pipelines)	Airports	Tolls
<b>Term</b>	10+ Years	5 Years	20+ Years
<b>Rate Determination</b>	FERC Determined / Market Based on Committed Utilization	Weighted Average Cost of Capital (Concession) / Market Based for Non-Aeronautical	Cost of Capital / Market Bid
<b>Rate Adjustments</b>	PPI + 2.65% / Negotiated	CPI + Spread / Flat 3%	Local Inflation + Spread
<b>Extension Options</b>	Two 5-Year Renewal Option	Through Life of Concession	Through Life of Concession
<b>CAPEX Reimbursement</b>	Potential for Tariff Reset	Negotiated in Defined Asset Base	Concession Extension / Rate Increase

Source: Invesco Real Estate. For illustrative purposes only.

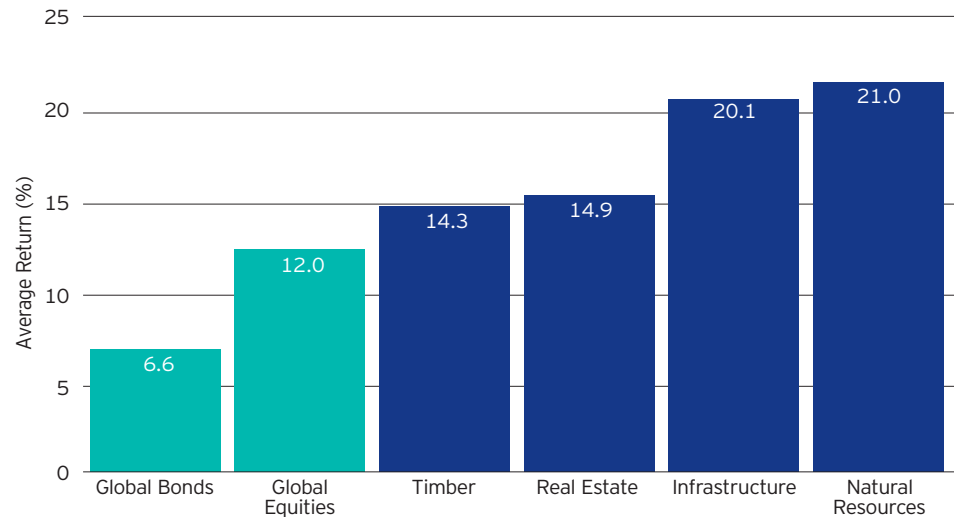
■ **Natural resources.** Listed natural resource companies often have large positive inflation betas, which can make them effective vehicles for insulating portfolios against inflation risk. In this regard, rising commodity, energy, and raw materials prices can be drivers of cost-push inflation. In fact, commodity prices are often the mechanism by which extreme events, such as weather-related supply disruptions, cause increases in the price level of goods and services.<sup>17</sup> Natural resource companies have an embedded link to inflation, as rising commodity and raw materials prices tend to increase the revenues, cash flows, reserve values, and profitability of natural resource producers. This dynamic can provide a durable inflation hedge.

For all of these reasons, listed real assets may provide a meaningful hedge against inflation, both expected and unexpected.<sup>18</sup> Not surprisingly, listed real assets have historically outperformed global stocks and bonds over the last 15+ years during inflationary periods. (See Chart 9.) In particular, natural resource companies have outperformed global stock and bonds by 9.0% and 14.4%, respectively, during periods of rising inflation. Infrastructure providers have outperformed by 8.1% and 13.5%, respectively, while real estate companies have outperformed by 2.9% and 8.3%, respectively.

To be clear, we recognize that inflation has been subdued since the global financial crisis. Yet the Federal Reserve's (Fed) most recent symposium at Jackson Hole generated headlines in part because of the formal adoption of "a flexible form of average inflation targeting."<sup>19</sup> Chairman Powell confirmed what many investors had suspected, namely, that the Fed had adopted a more dovish approach that would allow inflation to run above target in the aftermath of persistent inflation shortfalls.<sup>20</sup> However, if realized inflation exceeds current market expectations, the performance of traditional stocks and bonds could suffer. Investors who are concerned that the extreme monetary and fiscal stimulus employed globally in response to the current pandemic could result in higher inflation may want to consider allocating to these core real asset classes.



**Chart 9: Real Asset Performance During Periods of Rising Inflation**



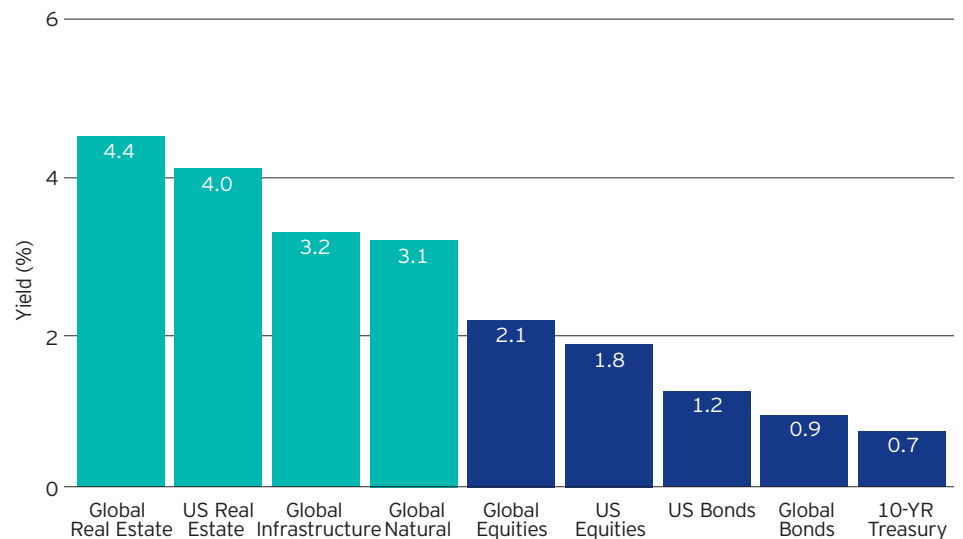
Sources: Invesco Real Estate, S&P, MSCI, FTSE EPRA Nareit, Dow Jones and Bloomberg L.P. using data from January 1, 2003 - December 31, 2020.

Total returns shown in USD. Annual update with latest available data.

Periods of world inflation acceleration include January 1, 2004 - December 31, 2004, January 1, 2006 - December 31, 2007, January 1, 2010 - December 31, 2011 and January 1, 2016 - December 31, 2017. Note: Infrastructure represented by Dow Jones Brookfield Global Infrastructure Index; timber represented by S&P Global Timber and Forestry Index; natural resources represented by S&P Global Natural Resources Index; real estate represented by FTSE EPRA Nareit Developed Index; global equities represented by MSCI World Index. Global bonds represented by Bloomberg Barclays Global Aggregate Index. The S&P Global Timber Index inceptioned on Aug. 13, 2007; the S&P Global Natural Resources Index on May 27, 2008 and the FTSE EPRA Nareit Developed Index in Feb. 2005. All information presented prior to the Index's inception date is back-tested. Back-tested performance is not actual performance, but is hypothetical. Although back-tested data may be prepared with the benefit of hindsight, these calculations are based on the same methodology that was in effect when the index was officially launched. Index returns do not reflect payment of any sales charges or fees. Performance, actual or hypothetical, is not a guarantee of future results. An investment cannot be made in an index. For illustrative purposes only.

**Attractive yield.** The Federal Reserve and many other central banks cut interest rates sharply in early 2020 in response to the pandemic-induced economic downturn. The Fed currently expects that rates may stay at or near the zero boundary at least through 2023.<sup>21</sup> (In fact, the Fed kept the short end of the yield curve at zero for seven years in the wake of the global financial crisis.) As a result, most traditional fixed income currently offers very low yields. However, many listed real assets still offer relatively attractive distribution yields, including real estate, infrastructure, and natural resource companies. (See Chart 10.)

**Chart 10: Yield Comparison for Listed Real Assets**



Represents the yield of the underlying securities as of September 30, 2020. The yield is not guaranteed and may go down as well as up. Positive distribution yield does not imply a positive return.

Sources: Invesco Real Estate, FTSE, Bloomberg L.P., and Morningstar. Global real estate represented by FTSE EPRA Nareit Developed Index, US real estate represented by FTSE Nareit All Equity REITs Index, global infrastructure represented by ProShares DJ Brookfield Global Infrastructure ETF, global natural resources represented by SPDR S&P Global Natural Resources ETF, global equities represented by MSCI World Index, US equities represented by S&P 500 Index, US bonds represented by Bloomberg Barclays US Aggregate Bond Index, global bonds represented by Bloomberg Barclays Global Aggregate Bond Index. An investment cannot be made directly in an index. Past performance is not a guarantee of future results.

## Risks

Of course, the current market environment is not risk-free for any asset class. Investments in real estate can be affected by changes in property values and interest rates, and the economic downturn combined with the sharp increase in unemployment has increased the vacancy rates and reduced the pricing power of some landlords for certain property types. Infrastructure companies are exposed to changes in the economic, regulatory, and political environments as well as government spending on infrastructure assets. Natural resource firms can be affected by changing commodity prices as well as rising costs associated with more onerous environmental and government regulations.

## Conclusion

Real assets have historically served as effective diversifiers with a longer-term track record of solid total returns, attractive dividends, and valuable inflation-hedging characteristics. They can also enable investors to tailor their portfolio exposures more precisely to the levels of risk and expected return they seek. In so doing, investors may benefit from exposure to powerful global trends such as economic and population growth, urbanization, expansion of the industrial and digital economies, and increasing demand for renewable energy - each of which we expect to enjoy persistency in the marketplace. While no single allocation fits all risk profiles, investors can adjust their exposures across multiple real asset classes to achieve potentially better diversification and enhanced risk-adjusted returns while staying within their own risk tolerances. The new backdrop of uncertain economic growth, varying interest rates, and potentially rising inflation has dampened return expectations for many investors. We believe exposure to real assets may help bridge the return gap without unduly increasing portfolio risk. Regardless of which sector exposures investors ultimately use, listed real asset companies with higher-quality assets operating in relatively supply constrained markets and with the prospect for above-average earnings growth may present potentially attractive investment opportunities.

### Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Property and land can be difficult to sell, so investors may not be able to sell such investments when they want to. The value of property is generally a matter of an independent valuer's opinion and may not be realized.

Investment in infrastructure-related companies may be subject to high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, the effects of energy conservation policies, governmental regulation, and other factors. Most MLPs operate in the energy sector and are subject to the risks generally applicable to companies in that sector, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. MLPs are also subject to the risk that regulatory or legislative changes could eliminate the tax benefits enjoyed by MLPs which could have a negative impact on the after-tax income available for distribution by the MLPs and/or the value of the portfolio's investments.

Energy infrastructure MLPs are subject to a variety of industry-specific risk factors that may adversely affect their business or operations, including those due to commodity production, volumes, commodity prices, weather conditions, terrorist attacks, etc. They are also subject to significant federal, state and local government regulation. During periods of interest rate volatility, these investments may not provide attractive returns. Businesses in the energy sector may be adversely affected by foreign, federal or state regulations governing energy production, distribution and sale as well as supply-and-demand for energy resources. Short-term volatility in energy prices may cause share price fluctuations.

Investments in real estate-related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid. Diversification does not guarantee a profit or eliminate the risk of loss.

Commodities may subject an investor to greater volatility than traditional securities such as stocks and bonds and can fluctuate significantly based on weather, political, tax, and other regulatory and market developments.

Fixed-income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

1 Bloomberg L.P., 12/31/2020. Real assets, as measured by the S&P Real Asset Equity Index, have offered competitive returns to US and global equities, as measured by the S&P 500 Index and MSCI World Index respectively, over the last two decades. Additionally, real assets have outperformed US and global bonds, as measured by the Bloomberg Barclays US Aggregate Bond Index and Bloomberg Barclays Global Aggregate Bond Index. As of 12/31/2020, real assets offer a competitive yield of 4.1% in comparison to 2.1%, 1.8%, 1.2% and 0.9% for global equities, US equities, US bonds and global bonds, respectively.

2 A. Smith, AllAboutAlpha, "An Overview of Real Asset Investing," 8/26/15.

3 Source: Bloomberg L.P., 12/31/20; Prequin Investor Outlook: Alternative Assets, 1H 2020.

4 Source: Prequin Investor Outlook: Alternative Assets, 1H 2020.

5 Source: Prequin Investor Outlook: Alternative Assets, 1H 2020.

6 Source: Morningstar Direct, 12/11/20.

7 Source: Prequin Investor Outlook: Alternative Assets, 1H 2020.

8 Source: Prequin Investor Outlook: Alternative Assets, 1H 2020.

9 Source: Bloomberg L.P., 12/31/20. Real estate represented by FTSE Nareit Equity REIT Index (01/2000 through 02/2005) then FTSE EPRA/NAREIT. Real estate has outperformed equities as represented by MSCI World Index and fixed income as represented by Barclays Global Aggregate Bond Index by 5.53% and 7.56%, respectively. Infrastructure as represented by 50% Alerian MLP Index & 50% Dow Jones World Utilities (01/2000 through 07/2008) then Dow Jones Brookfield Global Infrastructure Index has outperformed equities as represented by MSCI World Index and fixed income as represented by Barclays Global Aggregate Bond Index by 2.22% and 4.25%, respectively.

10 Source: A. Ghanti, et al., Portfolio Management, "Efficient Frontier," 3/4/20.

11 Source: A. Ghanti, et al., Portfolio Management, "Efficient Frontier," 3/4/20.

12 Mercer, "The Role of Listed Real Assets," January 2019.

13 A. Smith, AllAboutAlpha, "An Overview of Real Asset Investing," 8/26/15.

14 B. Blue, et al., Morningstar, "In the Absence of Inflation, Some Real Assets are Down But Certainly Not Out," 9/18/20.

15 Demand-pull inflation occurs when the relative demand for goods and services expands faster than supply. Cost-push inflation occurs when there is an increase in the price of inputs required to manufacture goods or provide services. See V. DeCrow, Origin Investments, "Rising Inflation: What Real Estate Investors Need to Know," 7/19/18.

16 See Mercer, "The Role of Listed Real Assets," January 2019.

17 See Mercer, "The Role of Listed Real Assets," January 2019.

18 A. Smith, AllAboutAlpha, "An Overview of Real Asset Investing," 8/26/15.

19 J. Powell, Board of Governors of the Federal Reserve System, "New Economic Challenges and the Fed's Monetary Policy Review," 8/27/20.

20 J. Powell, Board of Governors of the Federal Reserve System, "New Economic Challenges and the Fed's Monetary Policy Review," 8/27/20.

21 Source: Bloomberg L.P., 12/31/20.

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