Liquid Real Assets

INVESTMENT STRATEGY

ALLODIUM® INVESTMENT CONSULTANTS

What Are "Real Assets"?

Real assets are investments that provide exposure to physical assets that have their value tied to their substance or properties. Examples of real assets are commodities, natural resources, precious metals, real estate, and infrastructure.

There are two reasons to consider real assets. One reason is that they tend to behave differently than stock and bond investments. They generally show low "correlation," which can add some diversification to a portfolio. In portfolio construction, adding more diversifiers to a portfolio could lead to a tighter range of expected returns over time. Another reason to consider real assets is as an inflation hedge. During inflationary times, prices of real assets have historically often increased, so that these types of investments may perform well in that type of environment.

Accessing Real Assets with Daily Liquidity

The "Liquid" component of "Liquid Real Assets" (LRA) indicates that the investment can easily be bought and sold on an exchange. Obviously, real assets such as real estate, a bar of gold bullion, or a cell phone tower may not be readily traded on demand. To provide greater accessibility, liquidity, and diversification, investors can access real assets through daily liquid mutual funds, index funds and exchange-traded funds. Choosing liquid real assets via daily liquid funds allows for efficient, low-cost implementation and greater flexibility when rebalancing or raising cash.

Three Major Categories of Liquid Real Assets

1. ***Real Estate (REITs):*** A Real Estate Investment Trust or "REIT" is a fund that owns, operates or finances income-generating real estate. Modeled after mutual funds, REITs pool the capital of numerous investors. This makes it possible for investors to earn dividends from real estate, without having to buy, manage or finance the properties themselves.[1] REITs provide exposure to assets such as hotels, office buildings, apartment buildings, data centers, and cell phone towers. As these properties generate rental income, that income is passed through to investors and makes up most of the REIT investment return. By using daily liquid, publicly traded REITs, investors gain liquidity and diversification.

2. ***Commodities:*** The commodity universe includes real assets such as grains, livestock, oil and natural gas, and precious and industrial metals. Owning a broad basket of these physical assets would be cost prohibitive once transport and storage costs are considered. As a result, commodity futures within a mutual fund or ETF are used to provide exposure to those assets without the costs of owning physical commodities.
3. ***Infrastructure:*** This type of real asset includes companies that own or operate vital structures, facilities and services. Examples include airports, utilities, toll roads, energy transmission, and technology infrastructure. A mutual fund, index fund or exchange-traded fund (ETF) will combine investments in infrastructure companies and/or direct investments to provide greater liquidity and efficiency.

1. Chen, J. (2020, June 30). Real Estate Investment Trust (REIT). Investopedia. https://www.investopedia.com/terms/r/reit.asp

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