Inflation and Real Assets — May 2021

OVERVIEW

- **Recent government spending and loose monetary policy have raised near-term inflation concerns for investors and asset managers**
- **Real assets can offer an attractive hedge against inflation relative to other financial assets**
- **However, not all real assets are appropriate for long-term allocations and should be evaluated in the context of the broader portfolio**

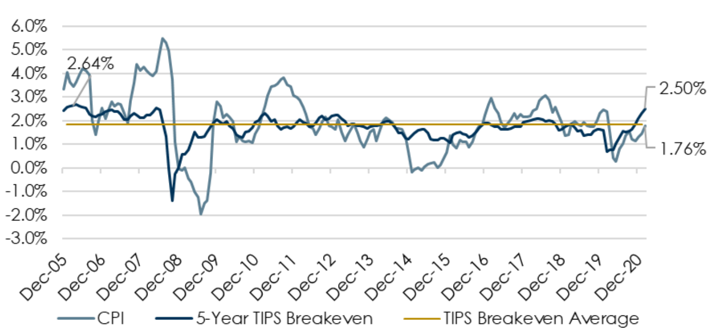
Background

While inflation has not been a meaningful factor since the 1980s, rising inflation expectations could result in negative impacts to investors as a result of diminishing real returns. Now is a good time to assess portfolio positioning and review how real assets can help protect against rising prices.

Inflation – A Growing Concern

Since 1945, the Consumer Price Index (CPI) has increased by an average of nearly 4% per year, with declines occurring in just three of those years. However, since the 1980s, a decade when annualized inflation was close to 6%, CPI has been on a downward trend of 1% - 3% average per year. There are a number of factors that helped limit inflation over this past decade, including technological innovation, globalization, and modest GDP growth. Recently, there have been growing concerns of rising prices, driven by the trillions of dollars spent on COVID-19 relief, the Fed's loose monetary policy, and the current administration's plans for a large infrastructure spending bill. In March, the five-year inflation breakeven climbed to its highest level in 15 years, and asset managers are increasingly citing inflation as the #1 risk to markets in the near-term.

Historical CPI and TIPS Breakeven (through February 2021)

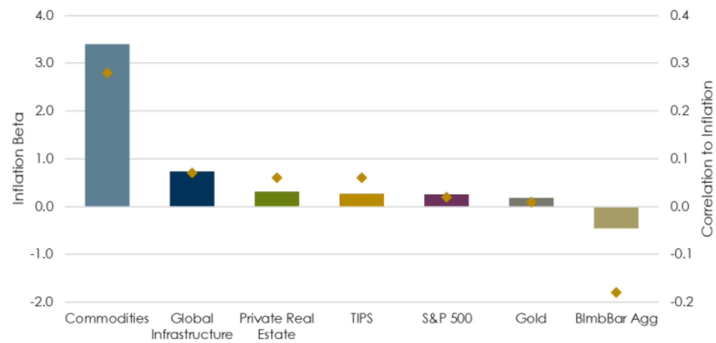


Source: Bloomberg, ACG Research

Identifying Investable Inflation Hedges

Investment portfolios tend to have a high allocation to financial assets like traditional equities and bonds, which can be negatively impacted by rising inflation. Real assets, which are generally defined as tangible assets with value derived from their physical attributes, may offer a higher degree of inflation protection than traditional financial assets. Some examples of real assets include real estate, infrastructure and commodities. These types of investments often generate a portion of returns through current income, like rents or service contracts, which are often adjusted for inflation. As input costs rise, real assets also benefit from higher replacement costs, providing an additional inflation hedge through capital appreciation.

Inflation Beta and Correlation to Inflation (2003-2020)

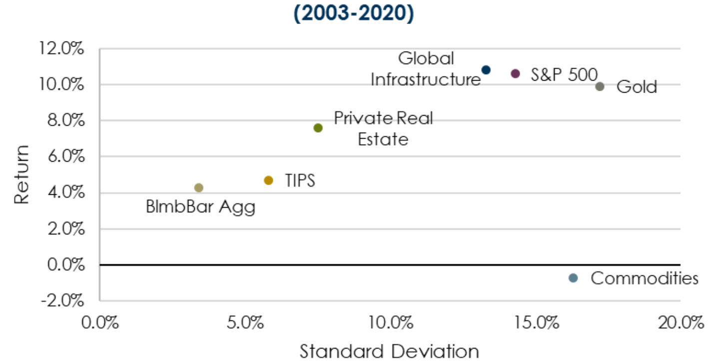


Source: Bloomberg, ACG Research

Evaluating Risk-Return Profiles of Real Assets

While commodities have historically offered the strongest positive correlation to inflation, they have also exhibited high levels of realized volatility and delivered a negative return over the last 10 years. Infrastructure and private real estate, which tend to have a higher correlation to CPI than equities and bonds, have delivered attractive risk-adjusted returns accretive to traditional portfolios of financial assets. This makes such options a compelling alternative for investors seeking to hedge against inflation while generating market returns.

Annualized Risk and Return (2003-2020)



Source: Bloomberg, ACG Research

ACG's Position

Portfolios of financial assets can be exposed to the effects of inflation, which can negatively impact the real return of investors' capital over time. While commodities tend to offer the highest correlation to inflation, the risk/return profile of the asset class makes a permanent allocation unappealing. However, an allocation to real estate and/or infrastructure should provide investors some protection against inflation while offering attractive long-term returns on a risk-adjusted basis.

Disclosures and Legal Notice

The views expressed herein are those of Asset Consulting Group (ACG). They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.

This report was prepared by ACG for you at your request. Although the information presented herein has been obtained from and is based upon sources ACG believes to be reliable, no representation or warranty, express or implied, is made as to the accuracy or completeness of that information. Accordingly, ACG does not itself endorse or guarantee, and does not itself assume liability whatsoever for, the accuracy or reliability of any third party data or the financial information contained herein.

Certain information herein constitutes forward-looking statements, which can be identified by the use of terms such as "may", "will", "expect", "anticipate", "project", "estimate", or any variations thereof. As a result of various uncertainties and actual events, including those discussed herein, actual results or performance of a particular investment strategy may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making investment decisions. ACG has no duty to update or amend such forward-looking statements.

The information presented herein is for informational purposes only and is not intended as an offer to sell or the solicitation of an offer to purchase a security.

Please be aware that there are inherent limitations to all financial models, including Monte Carlo Simulations. Monte Carlo Simulations are a tool used to analyze a range of possible outcomes and assist in making educated asset allocation decisions. Monte Carlo Simulations cannot predict the future or eliminate investment risk. The output of the Monte Carlo Simulation is based on ACG's capital market assumptions that are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. Capital market assumptions based on other models or different estimates may yield different results. ACG expressly disclaims any responsibility for (i) the accuracy of the simulated probability distributions or the assumptions used in deriving the probability distributions, (ii) any errors or omissions in computing or disseminating the probability distributions and (iii) and any reliance on or uses to which the probability distributions are put.

The projections or other information generated by ACG regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Judgments and approximations are a necessary and integral part of constructing projected returns. Any estimate of what could have been an investment strategy's performance is likely to differ from what the strategy would actually have yielded had it been in existence during the relevant period. The source and use of data and the arithmetic operations used for calculating projected returns may be incorrect, inappropriate, flawed or otherwise deficient.

Past performance is not indicative of future results. Given the inherent volatility of the securities markets, you should not assume that your investments will experience returns comparable to those shown in the analysis contained in this report. For example, market and economic conditions may change in the future producing materially different results than those shown included in the analysis contained in this report. Any comparison to an index is for comparative purposes only. An investment cannot be made directly into an index. Indices are unmanaged and do not reflect the deduction of advisory fees.

This report is distributed with the understanding that it is not rendering accounting, legal or tax advice. Please consult your legal or tax advisor concerning such matters. No assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual or other periodic basis. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.