

# Real Assets Strategy

Strategy Profile  
Multi-Asset Solutions

August 2024

**Inception:** April 1, 2005

**Assets Under Management:** \$7 billion<sup>1</sup>

**Vehicle Availability:** Range of institutional commingled vehicles, including separately managed custom mandates

**Investment Approach:** Strategic Allocation  
Indexed Underlying Components

**Benchmark Allocation:**

- 25% Bloomberg Roll Select Commodity Index
- 25% S&P Global LargeMidCap Commodity and Resources Index
- 20% S&P Global Infrastructure Index
- 20% US Government Inflation-Linked 1-10 Year Bond Index
- 10% Dow Jones US Select REIT Index

**Current Portfolio Yield:** 4.38% as of 06/30/2024

**Headline Strategy Fees:**

- First \$50M: 30bps
- Next \$50M: 27bps
- Thereafter: 25bps

## About the Real Assets Strategy

The Strategy seeks to achieve a positive real return over US inflation while targeting a risk level similar to that of longer-dated US Treasury Inflation-Protected Securities.

The Strategy is designed to offer a diversified exposure to commodities, global natural resource and infrastructure equities, real estate via US REITs, and US inflation-linked bonds. It employs a strategic asset allocation process to build a portfolio of carefully selected indexed components and provides a broad, cost-effective exposure to real assets.

Given its multi-asset-class approach, the Strategy offers three key benefits:

**Diversification** Real assets have historically demonstrated only a modest correlation with both traditional equities and bonds, as well as with each other, over a market cycle (see Figure 1).

**Income** Many real assets are income-producing, typically offering an attractive yield and providing an additional source of income (see Figure 4).

**Potentially Attractive Returns** Allocating to a diversified group of real assets can potentially provide additional returns relative to traditional assets.

<sup>1</sup> Source: FactSet and State Street Global Advisors, as of June 30, 2024.

Figure 1 Real Assets Potential Diversification Benefits

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	
40.85	33.16					57.22	28.07						30.77	19.07		25.75						
39.01	29.60	28.57		58.84		28.46	19.54		17.12				14.56	18.14		23.10		45.91				
36.18	23.68	21.36	38.56	22.44		25.89	16.83		10.89				14.56	8.61		15.91	10.99	27.93				5.38
25.64	19.53	17.25	35.97	16.23		24.04	16.20		7.77		32.00		11.45	3.76		13.79	1.96	26.29		13.96		2.75
23.93	9.15	14.22	30.04	12.00		18.91	6.31	13.56	6.99		12.12		6.68	3.64		8.43	1.55	21.10	15.32	5.78		3.48
8.40	8.46	13.82	11.50	11.64		11.41	4.79	9.37	6.98	14.00	3.64	4.48	4.68	3.01		6.09	1.44	11.04	14.72	4.36		1.55
1.88	3.26	3.42	2.54	4.08	0.09	2.72	1.50	2.96	1.74	1.50	0.76	0.73	2.07	2.11	1.91	2.29	1.36	7.04	6.45	3.35		1.40
		2.84	2.07	-17.55	-2.35			-0.48	-1.06	1.22	-1.06	-1.44			-1.26		-6.49	5.96	2.94	1.09		1.38
			0.41		-33.88			-1.30		-2.86	-9.94	-12.17			-4.22		-11.20		-0.99	-1.64		-0.55
					-35.65			-13.32		-4.54	-15.17	-14.17			-7.04				-7.34	-8.53		
					-39.20			-14.11		-8.61		-23.45			-9.37				-25.96			
					-39.49					-9.08		-27.53			-10.37							
					-46.30										-11.68							

US TIPS Global Natural Resources US REITs Commodity Global Infrastructure US Inflation Real Assets

Source: State Street Global Advisors and FactSet, Data from 2003 to June 30, 2024. Diversification does not ensure a profit or guarantee against loss. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. All index returns are in USD. Past performance is not a reliable indicator of future performance. See Disclosures for Index information.

Figure 1 Reference Indices:

Commodities: Bloomberg Commodities Total Return Index (2002–2012) and Bloomberg Roll Select Commodity Index (2013–Present)  
 Global Natural Resources: S&P Global Natural Resources Index (2003–2004) and S&P Global LargeMidCap Commodity and Resources Index (2005–Present)  
 Global Infrastructures: S&P Global Infrastructure Index  
 US REITs: Dow Jones US Select Real Estate Investment Trust (REIT) Index  
 US TIPS: Bloomberg Barclays US Inflation-Linked Securities Index  
 US Inflation: US CPI-U Non-Seasonally Adjusted  
 Real Asset: State Street Global Advisor’s Real Asset Composite Index  
 Prior to 2005, performance reflects the S&P Index (2002–2004).

Real Asset Strategy Use Cases

We typically see investors making long-term strategic allocations to the Real Asset Strategy to provide a standalone **core exposure to inflation-hedging assets** (complementing a portfolio of traditional equities and bonds) as well as to provide a **liquidity sleeve and complement to private allocations**.

1. Core Exposure to Inflation-Hedging Assets

During periods of high and rising inflation, real assets have historically demonstrated their most competitive returns relative to both traditional equities and fixed income. In addition, during these inflation regimes, a diversified real assets allocation has improved returns relative to a standalone allocation to US REITs, global infrastructures equities, and TIPS.<sup>2</sup>

The Real Asset Strategy creates a diversified exposure to real assets (compared to standalone building blocks) and enables investors to outsource asset allocation decision-making. The Strategy provides portfolio diversification across multiple real asset classes, allows for strategic asset allocation with indexed underlying funds, and is strengthened by an annual review of its strategic asset allocation.

From a risk management point of view, the Strategy has a target standard deviation similar to that of longer-dated US TIPS, has a low targeted tracking error against its composite benchmark, and uses a highly disciplined rebalancing policy and cash-flow management approach.

When evaluating inflation hedges, it is important to focus on inflation beta, as that may be more revealing than correlation (see Figure 2). Real assets, particularly commodities, have exhibited positive, sizable inflation betas, and as such, a small allocation can be used advantageously to provide protection from rising and elevated inflation environments.

<sup>2</sup> The Case for a Strategic Allocation to Real Assets (ssga.com).

## 2. Liquidity Sleeve and Complement to Private Allocation

The Real Asset Strategy is also often used in a completion role, providing complementary liquidity to other less-liquid direct or private real asset investments and assisting in rebalancing and managing ongoing cash flows. It may also be used in conjunction with other inflation-hedging assets such as gold or master limited partnerships, providing further diversification benefits in a multi-asset-class portfolio.

The Strategy uses cost-effective and transparent indexed components to boost liquidity, and in so doing it provides investors with additional flexibility to implement a custom portfolio allocation.

### The Case for Incorporating Real Assets

Real assets can be a valuable allocation within a portfolio by providing inflation-hedging potential, diversification, additional income, and attractive absolute returns. Real assets tend to benefit when economic growth accelerates because demand increases, usually pressuring inflation higher, which is when real assets have historically performed the best.

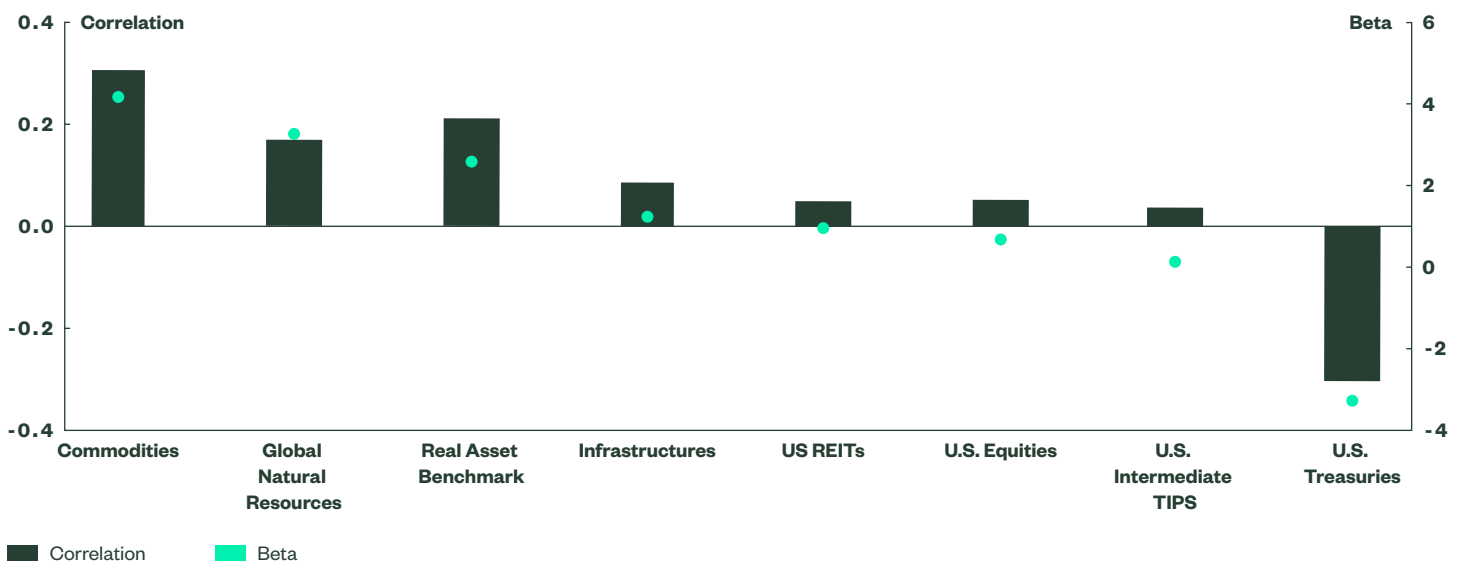
**Commodities** are considered to be a leading indicator of inflation because their prices respond quickly to economic changes in supply and demand. Historically, commodities have had a larger beta and stronger positive correlation to inflation relative to traditional equities and bonds as well as many other real asset classes.

In the **equity space**, companies that rely on the extraction of natural resources can benefit from rising commodity prices, translating to higher profits. Further, resource equities have historically demonstrated a sizable beta to inflation, which supports their return outlook during periods of rising demand and inflation.

**Infrastructure** companies and **REITs** are often able to pass increased costs on to consumers via price or rent increases due to the essential nature of their services and inelastic demand; some may have rate escalators in their contracts tied to inflation.

While rising inflation poses one of the biggest risks to nominal bonds by eroding the purchasing power of future cash flows, **inflation-linked bonds** have a unique structure where the principal is adjusted for changes in actual inflation.

Figure 2 **Correlation and Beta**



Source: FactSet as of 06/30/2024.

## Diversification, Income, Returns

In addition to their inflation-hedging attributes, real assets can be a valuable allocation within a portfolio by providing diversification, additional income, and attractive absolute returns.

**Diversification** Real assets have historically demonstrated only a modest correlation with nominal bonds, as well as with each other (see Figure 3).

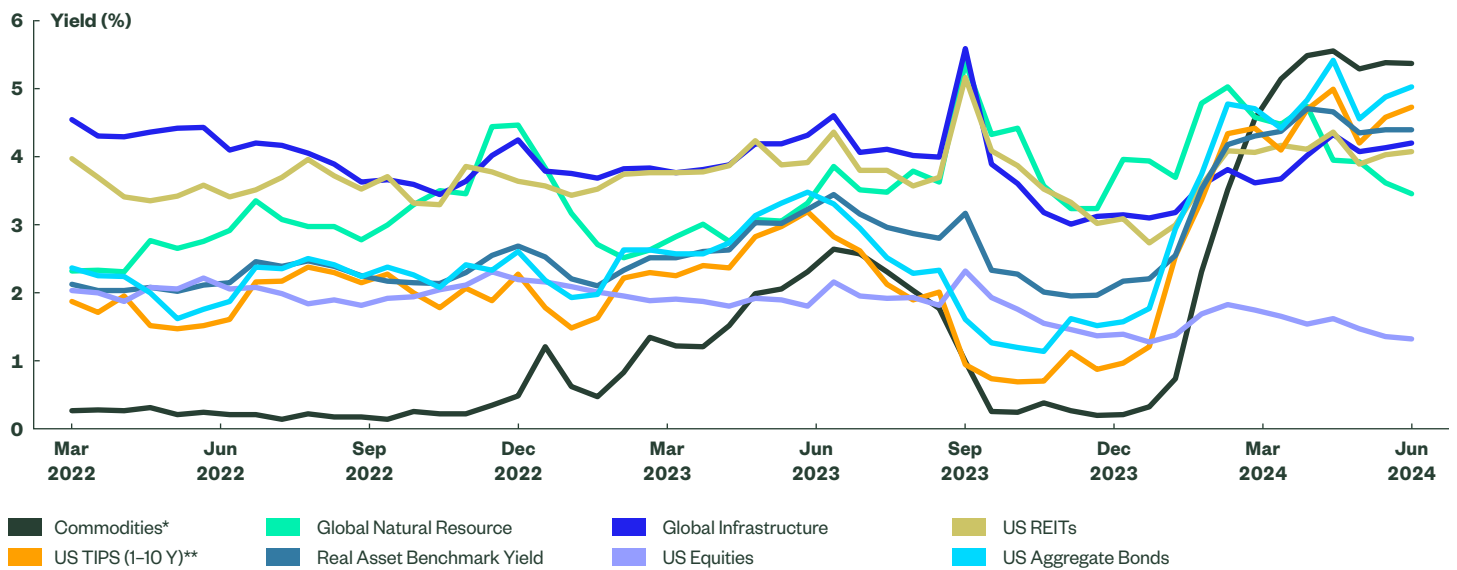
Assets included in the Real Asset Strategy possess unique inflation-hedging characteristics. Over the last 20 years, no single asset class has beaten inflation over every period, but a diversified allocation to a broad array of real assets has historically provided a meaningful measure of inflation protection while mitigating some of the more extreme performance fluctuations of the more volatile asset classes, such as commodities and natural resources stocks.

Figure 3 Real Asset Correlations

03/31/2005 to 06/30/2023	SSGA Real Assets	Commodities	Global Natural Resources	US REITs	Global Infrastructure	US TIPS	US LC Equities	US Agg Bonds
SSGA Real Assets	1.00							
Commodities	0.80	1.00						
Global Natural Resources	0.89	0.80	1.00					
US REITs	0.75	0.33	0.47	1.00				
Global Infrastructure	0.86	0.58	0.79	0.71	1.00			
US TIPS	0.48	0.39	0.37	0.37	0.46	1.00		
<b>US LC Equities</b>	0.78	0.46	0.70	0.74	0.81	0.34	1.00	
<b>US Agg Bonds</b>	0.22	0.01	0.11	0.34	0.34	0.70	0.23	1.00

Source: FactSet, as of 06/30/2024.

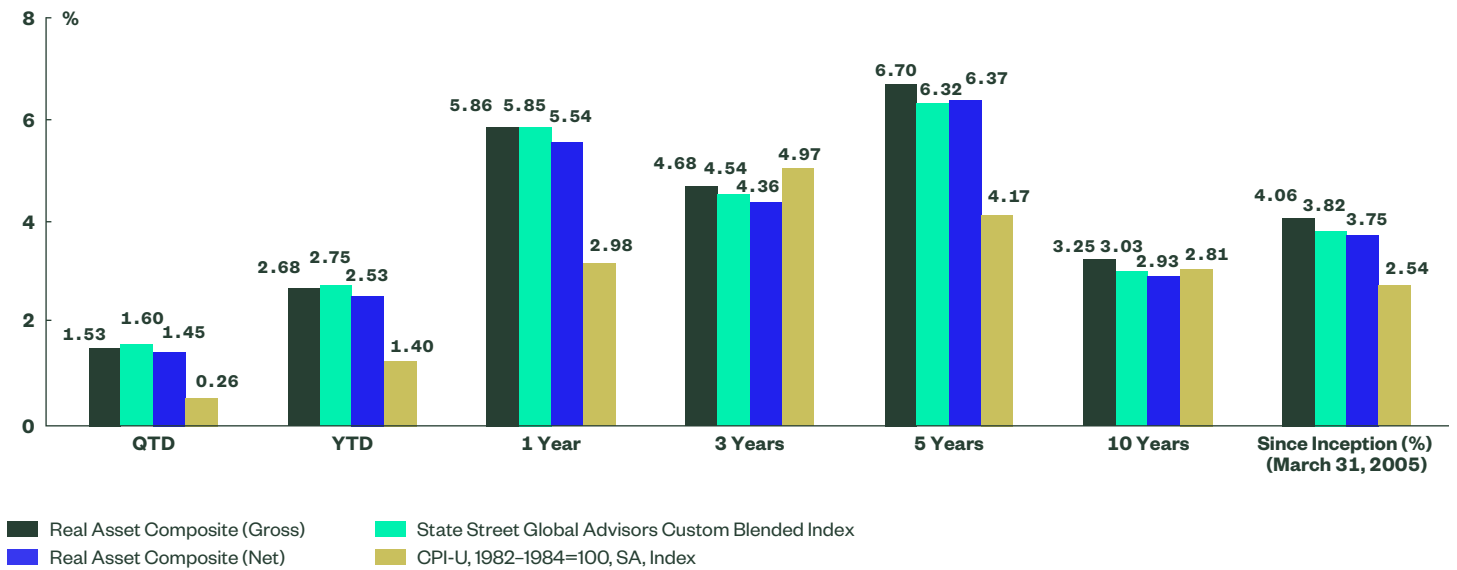
Figure 4 Historical Yields of Real Asset Components and Benchmarks



Source: State Street Global Advisors, FactSet and Barclays, as of 06/30/2024.

**Potentially Attractive Returns** In an environment of low to moderate expected returns for traditional stocks and bonds, investing in real assets can potentially provide an additional source of total portfolio returns.

Figure 5 **Annualized Performance (%)** in USD as of June 30, 2024



Source: State Street Global Advisors, FactSet as of 06/30/2024.

Performance returns for periods of less than one year are not annualized. Returns represent past performance and are not a guarantee of future results. Current performance may differ from the performance shown.

**Composite Disclosure:**

Returns shown are asset-weighted using Composite member market values, where the Composite member's return calculations are time-weighted and reflect the reinvestment of dividends and other income. These performance figures are provided gross of fees and expenses other than actual trading fees and expenses, and reflect all items of income, gain, and loss. These performance figures (i) are provided net of actual trading, audit, custody, administrative and legal fees and expenses; (ii) beginning on 09/30/2014, adjusted quarterly to reflect the highest investment management fee on the actual fee schedule, inclusive of incentive fee, if any, of any account within the Composite ("Management Fee") at the relevant time; prior to 09/30/2014, adjusted for an assumed investment management fee, which is equal to or higher than the Management Fee (except in each case certain small accounts-subject to a minimum investment management fee-may have incurred an actual investment management fee higher than that fee assumed in calculating the performance shown above); and (iii) reflect all items of income, gain and loss. The performance shown is of a composite consisting of all discretionary accounts using this investment strategy. The above information is considered supplemental to the GIPS presentation for this Composite, which is available upon request. The performance figures contained herein are provided on a gross and net of fees basis. Gross of fees do not reflect and net of fees do reflect the deduction of advisory or other fees which could reduce the return. Some members of this composite may accrue administration fees. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in US dollars.

**Index Disclosure:**

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Figure 6 **Portfolio Characteristics & Performance**

	<b>Standard Deviation Composite</b>	<b>Sharpe Ratio</b>
1 Year	9.16	0.05
3 Year	12.72	0.13
5 Year	13.34	0.34
7 Year	12.05	0.35
10 Year	11.23	0.15
Since Inception (04/01/2005)	13.86	0.18

Source: State Street Global Advisors as of 06/30/2024. Past performance is not a reliable indicator of future performance. Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. The Sharpe Ratio information shown is that of a single representative account within the Composite, which is subject to change. The representative account was chosen because it has no material restrictions and fairly represents the investment style of the Strategy. This information should not be deemed to be reflective of (and could differ from) the overall Composite or any other single account within the Composite.

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\* Pensions & Investments Research Center, as of December 31, 2023.

<sup>†</sup> This figure is presented as of June 30, 2024 and includes ETF AUM of \$1,393.92 billion USD of which approximately \$69.35 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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We have over 30 years' experience helping to develop, design, and review portfolios. We began managing US Asset Allocation accounts (US stocks, bonds, and cash) for our clients in 1982, Global Asset Allocation (GAA) accounts in 1989, and tactical accounts in the late 1980s and strategic passive balanced strategies since the early 1990s and target date portfolios specifically in 1995. ISG's portfolio management process is the result of many years of experience and ongoing research. With over 135 investment professionals across eight global investment centers, our Investment Solutions Group collaborates with investors to create intelligent, forward-thinking, multi-asset-class solutions tailored to their unique investment objectives. As of June 30, 2024, the Investment Solutions Group had \$426.79 billion in assets under management and assets under advisory consulting.

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### ssga.com

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Investing in REITs involves certain distinct risks in addition to those risks associated with investing in the real estate industry in general. Equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while mortgage REITs may be affected by the quality of credit extended. REITs are subject to heavy cash flow dependency, default by borrowers and self-liquidation. REITs, especially mortgage REITs, are also subject to interest rate risk (i.e., as interest rates rise, the value of the REIT may decline).

The major risks associated with investing in the natural resources sector, including large price volatility due to non-diversification and concentration in natural resources companies.

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**This document provides summary information regarding the Strategy. This document should be read in conjunction with the Strategy's Disclosure Document, which is available from SSGA.**

**The Strategy Disclosure Document contains important information about the Strategy, including a description of a number of risks.**

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