What’s in a Name?
The Jury Is Still Out in Defining “Liquid Alts”

At one time, alternatives were a category of investments used primarily by institutions and high-net-worth investors to invest in hedge fund and private equity strategies—most of which were illiquid or provided limited liquidity. But today, individual investors can gain access to an innovative new generation of alternative strategies. The challenge is that the term “alternatives” is loosely defined, refers to a broad category rather than a strategy and means different things to different investors. This is especially true with the rise of more liquid strategies, the so-called “liquid alts.”

Two Industry Experts, Two Different Ways of Looking at Alternatives

As the experts in their field, the Chartered Alternative Investment Analyst Association (CAIA) groups alternatives into five broad categories: hedge funds, private equity, structured products, commodities and real assets. By contrast, the Alternatives category, as defined by Morningstar, Inc. (Morningstar), favors a much narrower definition of alternatives. For the most part, Morningstar’s Alternatives category comprises hedged strategies—a subset of CAIA’s “hedge funds” category—structured as mutual funds or exchange traded funds (or ETFs). Confusingly absent from this group, in our view, are funds comprising core liquid real assets—including commodities—which we believe combine the complementary diversification potential of alternative strategies with the liquidity and transparency characteristics of publicly traded securities.

A Holistic Way to Reframe the Asset Class

This edition of the Real Assets Review assesses the lack of consensus on how investors define and allocate to alternatives. In our view, these categories should be framed within a context that is more relevant to an investor’s decision-making process. Generally speaking, the investment objective of alternative strategies is to enhance portfolio diversification and improve risk-adjusted returns over time. But there is more than one way to approach this goal. Using CAIA’s more comprehensive alternative classifications, we reset the parameters by dividing liquid alternatives into two types of strategies: “non-directional” and “directional.”
Alternatives Mean Different Things to Different Investors

If there is one thing that is constant in the investment world, it is change. But often, with change and innovation come the confusion of complex and loosely defined investment structures. A timely and high-profile example lies in the evolution of alternative strategies, which encompass a broad-based group of new and rapidly growing investment strategies. As defined by Morningstar, the Alternatives category is divided among the following investment strategies:

- Bear Market
- Multialternative
- Currency
- Managed Futures
- Long-Short Equity
- Volatility
- Market Neutral
- Various “Trading” Categories

This list is far narrower in scope than how the alternatives experts, CAIA, categorize alternative strategies. While CAIA openly recognizes the lack of consensus on how alternatives are defined by the industry, they broadly group the alternative asset categories as follows:

- Real assets: private real estate, real estate investment trusts (REITs), land and infrastructure
- Commodities
- Private equity
- Structured products

Notably, while real assets were first on CAIA’s list of alternative categories, Morningstar does not have a real assets subcategory within Alternatives. Commodities are one of CAIA’s five alternatives categories, yet are treated as a separate Morningstar category with no connection to alternatives. Adding further to the confusion, Morningstar treats Real Estate Securities and Natural Resource Equities as equity subsectors, but places Global Listed Infrastructure in the Global Equity category. In our view, these contradictions of terms underscore how loosely the industry defines alternatives.

Even though there are differences in how Morningstar and CAIA view the world of alternatives, they do agree on one thing: the reason to invest. In broad terms, the objective is to enhance portfolio diversification and improve risk-adjusted returns over time. The challenge for investors is to understand how the various types of alternative strategies tie into this goal. We believe simply reframing the alternatives landscape into directional and non-directional strategies is a practical way to make sense of this asset class as it moves into the mainstream of everyday asset allocation. At a high level, we define these terms as follows:

- Non-directional strategies are typically designed to limit equity and fixed-income market exposure with the goal of keeping volatility and drawdowns to a minimum. In the world of liquid alternatives, these are the so-called absolute-return strategies, which are predominantly advertised as hedge funds structured as mutual funds or ETFs. Their structures allow for a lower minimum investment, greater liquidity and simpler tax treatment than most traditional hedge funds structured as private limited partnerships.

- Directional strategies also look to diversify beyond traditional stock and bond investing, but aim to achieve diversification by targeting asset classes and sectors with unique underlying asset economics and/or different business-cycle sensitivities. Real assets, for example, have historically tended to outperform during episodes of unexpected inflation and, more generally, at late-stage turns in the business cycle. Investors can choose among a variety of mutual funds and ETFs that use directional strategies to target one or more real asset classes.

We believe that reframing the alternatives landscape into non-directional and directional strategies is a practical way to make sense of alternatives as they move into the mainstream of everyday asset allocation.
Investors in non-directional strategies can pay a high price for capital preservation potential, considering the opportunity cost of having little or no market exposure.

**A Better Framework for Thinking About Alternatives?**

**The Characteristics of Directional vs. Non-Directional Strategies**

Most of the funds included in the Morningstar Alternatives category employ non-directional hedging strategies, seeking absolute returns with a very low sensitivity to equity and/or fixed-income benchmarks. But, over the long term, we believe investors should recognize the potentially high price to pay for the capital preservation goals common to these strategies, considering the opportunity cost associated with having little or no market exposure. By contrast, directional strategies target specific asset categories that can help diversify the drivers of risk and return in a variety of markets.

**Non-Directional Strategies**: Because of the expected lower-risk profile and use of hedging strategies, non-directional strategies are almost exclusively dependent on manager skill to generate returns over time. However, as Exhibit 1 below illustrates, the long-term performance of many such strategies has proven rather disappointing. Market-Neutral and Multicurrency strategies, for example, have delivered returns similar to short-term Treasury bills but with significantly more volatility. And while the average long/short equity mutual fund has performed somewhat better, it’s worth noting that a simple, hypothetical portfolio that allocated approximately 30% to the S&P 500 Index and 70% to 3-month Treasury bills would actually have delivered similar returns with less volatility over this time period.

By definition, of course, some funds in this universe outperformed, while others underperformed the category averages that we highlight below. Unfortunately, this fact only serves to point out that it is the end investor who then inherits the additional burden of identifying those managers with realistic prospects of adding alpha over time. In a sense, the “risk” of non-directional strategies may be better understood as failing on the “return” side of the equation.

### Exhibit 1: Non-Directional Alternative Strategies Have Demonstrated Disappointing Risk-Adjusted Results Over the Long Term

**20-Year Performance from February 1994–February 2014**

<table>
<thead>
<tr>
<th></th>
<th>U.S. Treasury Bills</th>
<th>30% Stocks/70% U.S. Treasury Bills</th>
<th>Morningstar Market Neutral Category</th>
<th>Morningstar U.S. Multicurrency Category</th>
<th>Morningstar U.S. Long/Short Equity Category</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annualized Return</strong></td>
<td>2.9%</td>
<td>5.0%</td>
<td>3.2%</td>
<td>2.6%</td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Volatility (Standard Deviation)</strong></td>
<td>0.6%</td>
<td>4.6%</td>
<td>3.4%</td>
<td>6.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Sharpe Ratio</strong></td>
<td>N/A</td>
<td>0.47</td>
<td>0.10</td>
<td>-0.16</td>
<td>0.44</td>
</tr>
</tbody>
</table>


Performance data quoted represents past performance. Past performance is no guarantee of future results. The information presented above does not reflect the performance of any fund or other account managed or serviced by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. Data represents average performance by the Morningstar fund category, which reflects the deduction of fund level expenses. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend will begin. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. See Morningstar Category definitions below and the back cover for index definitions. Beta measures volatility in relation to the overall market.

**Classifications of Morningstar Funds**

Market Neutral funds attempt to reduce systematic risk created by factors such as exposure to sectors, market-cap ranges, investment styles, currencies, and/or countries. They try to achieve this by matching short positions within each area against long positions. These strategies are often managed as beta-neutral, dollar-neutral or sector-neutral. A distinguishing feature of funds in this category is that they typically have low beta exposures (< 0.3 in absolute value) to market indexes such as the MSCI World Index. In attempting to reduce systematic risk, these funds put the emphasis on issue selection, with profits dependent on their ability to sell short and buy long the correct securities.

Multicurrency portfolios invest in multiple currencies through the use of short-term money market instruments; derivative instruments including and not limited to forward currency contracts, index swaps, options and cash deposits.

Long-Short Equity portfolios hold sizable stakes in both long and short positions in equities and related derivatives. Some funds that fall into this category will shift their exposure to long and short positions depending on their macro outlook or the opportunities they uncover through bottom-up research. Some funds may simply hedge long stock positions through exchange-traded funds or derivatives. At least 75% of the assets are in equity securities or derivatives.

Three-month U.S. Treasury bills are represented by the Citigroup 3-Month U.S. Treasury Bill Index. Stocks are represented by the S&P 500 Index. Standard Deviation is a commonly used statistical measure of volatility. Sharpe Ratio is a measure of risk-adjusted return, calculated by subtracting the risk-free rate from a return and dividing that result by the standard deviation. The higher the Sharpe Ratio, the lower the risk.
**Directional Strategies:** Because directional strategies pursue higher return objectives, they can carry a higher average level of exposure to broad market risks than that of absolute return strategies, which must offer low market correlations in order to justify their prospectively lower long-term returns. The benefits of directional strategies are primarily dependent on underlying asset performance over time, the expertise provided by active management, and the prospects for differentiating performance during periods of below-average stock and/or bond performance.

**The Characteristics of Non-Directional and Directional Strategies at a Glance**

The tables below reorganize the categories deemed to be alternative strategies by Morningstar and CAIA—based on whether they are directional or non-directional strategies—and then highlight the investment characteristics of each. In our view, this methodology builds a more inclusive framework, one that seeks close alignment with CAIA’s classifications.

### Investment Characteristics

<table>
<thead>
<tr>
<th>Non-Directional Strategies</th>
<th>Directional Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Generally unconstrained strategies</td>
<td>• Target specific diversifying asset classes</td>
</tr>
<tr>
<td>• Lower risk/lower return potential, generally using hedging to seek capital preservation</td>
<td>• Higher risk/higher return potential with a capital/growth appreciation focus</td>
</tr>
<tr>
<td>• Performance almost exclusively dependent on manager skill</td>
<td>• Performance dependent on both asset performance and manager skill</td>
</tr>
<tr>
<td>• Diversification benefits driven by limited market exposure</td>
<td>• Diversification driven by unique underlying asset economics and different business-cycle sensitivities</td>
</tr>
<tr>
<td>• Often deemed fixed-income substitutes</td>
<td>• Often deemed equity substitutes</td>
</tr>
</tbody>
</table>

### Strategies to Consider

<table>
<thead>
<tr>
<th>Non-Directional Strategies</th>
<th>Directional Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The vast majority of Morningstar’s Bear Market, Multialternative, Currency, Managed Futures, Long-Short Equity, Volatility, Market Neutral, Various “Trading” Categories</td>
<td>• Real Assets</td>
</tr>
<tr>
<td>• Certain hedge funds and private equity investments</td>
<td>• Commodities</td>
</tr>
<tr>
<td>• Certain types of structured products</td>
<td>• Certain hedge funds and private equity investments</td>
</tr>
<tr>
<td></td>
<td>• Certain types of structured products</td>
</tr>
</tbody>
</table>

Non-directional and directional strategies use different techniques to achieve a common goal: to enhance portfolio diversification and improve risk-adjusted returns over time.
**Liquid Real Assets Are Liquid Alts**

Cohen & Steers’ expertise is focused on directional alternatives strategies that fall into the real assets and commodities categories as designated by CAIA. We divide this universe into four asset classes with distinct investment characteristics and cash flows tied to tangible hard assets: commercial real estate, commodities, natural resource equities and global listed infrastructure. Since the economics of the underlying assets and their sensitivities to the business cycle are distinct for each category, the drivers of risk and return can offer complementary diversification to traditional portfolios of stocks and bonds, as highlighted below:

**Commercial Real Estate.** The cash flows from commercial real estate are derived from diverse property types with a variety of lease durations and structures, ranging from days (hotels), to months (self storage) to many years (health care and industrial property types). Sectors with shorter lease terms can adjust rents if inflation moves higher in periods of economic expansion; longer-lease sectors tend to be more defensive, with lower but more stable bond-like returns.

**Commodities.** Unlike equity returns that represent a discounted value of future cash flow, commodity returns are tied to near-term economic trends and the dynamics of supply and demand. Often, returns are event-driven and concentrated in short periods of time. Commodities also have a high correlation with inflation. These factors lead to higher volatility and low correlations with equities and fixed income.

**Natural Resource Equities.** Natural resource equities can serve as a real assets complement to commodities. As equities, their return profiles tend to be out of phase with commodities and typically lead the cycle. Investors can also access commodities exposure in categories not found in futures markets, such as iron ore and uranium, as well as potash and certain other agribusiness segments.

**Global Listed Infrastructure.** Infrastructure securities tend to be less volatile than other equities, given the stability of cash flow derived from the essential services they provide—for example, energy transmission, utilities, transportation, communications—and have characteristics of monopolistic businesses. At the same time, cash flows from infrastructure assets are often tied to inflation. Given these characteristics, infrastructure has the potential to perform well throughout the economic and business cycle.

Exhibit 2 below highlights the 20-year performance history of global real estate securities, commodities, natural resource equities and infrastructure, followed by an equally divided blend of the individual asset classes. Given the distinct return profile of each component, the Diversified Real Assets Blend generated equity-like returns with less volatility, as measured by standard deviation. Notably, this performance was achieved in a period of relatively low inflation, thus indicating that high inflation is not a prerequisite for real asset performance.

---

**Exhibit 2: Diversifying Among Real Assets Offers Attractive Risk-Adjusted Returns Across Full-Market Cycles**
20-Year Performance from February 1994 through February 2014

<table>
<thead>
<tr>
<th></th>
<th>Stocks</th>
<th>Bonds</th>
<th>Real Estate</th>
<th>Commodities</th>
<th>Natural Resource Equities</th>
<th>Infrastructure</th>
<th>Diversified Real Assets Blend</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annualized Return</strong></td>
<td>9.2%</td>
<td>6.4%</td>
<td>9.8%</td>
<td>4.0%</td>
<td>9.0%</td>
<td>11.1%</td>
<td>9.0%</td>
</tr>
<tr>
<td><strong>Volatility (Standard Deviation)</strong></td>
<td>15.2%</td>
<td>6.3%</td>
<td>17.8%</td>
<td>16.5%</td>
<td>18.3%</td>
<td>15.0%</td>
<td>13.8%</td>
</tr>
<tr>
<td><strong>Sharpe Ratio</strong></td>
<td>0.61</td>
<td>1.00</td>
<td>0.55</td>
<td>0.24</td>
<td>0.49</td>
<td>0.74</td>
<td>0.65</td>
</tr>
</tbody>
</table>

At February 28, 2014. Source: Bloomberg and Cohen & Steers. Performance data quoted represents past performance. Past performance is no guarantee of future results. The information presented above does not reflect the performance of any fund or other account managed or serviced by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend will begin. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Stocks are represented by the S&P 500 Index. Bonds are represented by the BoA Merrill Lynch U.S. 7–10 Year Treasury Index. Real Estate is represented by the FTSE NAREIT Equity REIT Index through February 2005 and the FTSE EPRA/NAREIT Developed Real Estate Index thereafter. Commodities are represented by the S&P GSCI through July 1998 and the Dow Jones-UBS Commodity Index thereafter. Natural Resource Equities are represented by a 50/50 Blend of the Datastream World Oil & Gas Index and Datastream World Basic Materials Index through May 2008 and the S&P Global Natural Resources Index thereafter. Infrastructure is represented by a 50/50 Blend of the Datastream World Pipelines Index and Datastream World Gas, Water, & Multi-Utilities Index through July 2008 and the Dow Jones Brookfield Global Infrastructure Index thereafter. The Diversified Real Assets Blend is represented by an equally weighted blend of Real Estate, Commodities, Natural Resource Equities and Infrastructure. Standard Deviation is a commonly used statistical measure of volatility. Sharpe Ratio is a measure of risk-adjusted return, calculated by subtracting the risk-free rate from a return and dividing that result by the standard deviation. The higher the Sharpe Ratio, the lower the risk. See the back cover for index definitions.
Exploring the Liquid Alts Advantage of Real Assets

In our view, an important test of the diversification potential provided by liquid real assets is to measure their performance over periods when stocks and bonds are simultaneously underperforming their long-term averages. Exhibit 3 below summarizes the 20-year performance of four liquid real asset categories—real estate securities, commodities, natural resource equities and listed infrastructure. Notably, the four liquid real asset categories outperformed a 60% stock/40% bond allocation during these episodes, based on 12-month rolling performance from February 1994–February 2014. When combined in equal amounts, the Diversified Real Assets Blend materially outperformed stocks and bonds. In our view, such a multi-asset class approach to real assets can be an effective way to achieve portfolio diversification, especially under conditions of joint stock and bond underperformance.

To learn more about the potential benefits of real assets diversification, read Cohen & Steers’ February 2014 whitepaper, Exploring the Real Benefits of Real Assets, which is available at cohenandsteers.com.

We believe that the diversification benefits of liquid real assets can be furthered by combining multiple categories in a single, actively managed portfolio.
Our Closing Perspective

It all began with REITs, the first liquid alternative.

As a pioneer of the REIT industry, Cohen & Steers’ roots in liquid alternative strategies can be traced back to the 1980s. Early on, we recognized that commercial real estate could be better executed and delivered through public markets. While incorporating the benefits of liquidity and transparency, investors continued to enjoy the investment benefits of commercial real estate—land and buildings that have intrinsic value based on their location and quality, as well as predictable cash flows tied to legally binding leases with tenants. Their investments also reaped the benefits of professional management focused on developing and acquiring assets, as well as funding future growth through public markets. In our view, these factors have played a part in the long-term performance advantage of REITs relative to private real estate, as highlighted in Exhibit A.

Over the years, Cohen & Steers’ liquid real asset expertise has expanded from real estate into three additional categories—commodities, natural resource equities and global listed infrastructure. Underlying all of these asset classes is an exceptionally large and diverse makeup of subsectors and industry groups, each with distinct sensitivities to the economic and business cycle. For the investor, these qualities can be valuable in serving to diversify the drivers of a portfolio’s risk and return characteristics, which can enhance portfolio efficiency.

While each of these liquid real asset categories has distinct fundamental merit, we believe that further synergies can be achieved by combining them in a multi-category approach that serves to diversify the sources of risk and return. Optimally, the process behind this approach combines i) the perspective of top-down tactical views on allocation decisions, ii) in-depth bottom-up fundamental research and iii) an ever-present focus on risk management. In our view, such a diversified portfolio of liquid real assets—properly diversified and skillfully managed—can offer unique diversification benefits to help mitigate many of the long-term risks associated with traditional stock and bond investing.

At December 31, 2013. Source: Bloomberg, NCREIF and Cohen & Steers.

Performance data quoted represents past performance. Past performance is no guarantee of future results. The information presented above does not reflect the performance of any fund or other account managed or serviced by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend will begin. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes.

Listed REITs are represented by the FTSE NAREIT Equity REIT Index. Core Private Real Estate Funds are represented by the NCREIF Fund Index-Open-End Diversified Core Equity Index (NFI-ODCE). NCREIF is the National Council of Real Estate Fiduciaries, which provides data on the performance of private real estate. See the back cover for index definitions.

REITs combine the real-asset attributes of real estate with the return, correlation and diversification characteristics investors seek in liquid alternatives. In our view, this combination is found in the fundamentals of other liquid real asset categories, such as commodities, natural resource equities and infrastructure.
Behind the Numbers

What Financial Advisors Recently Told Us About Their Real Asset Allocations

Cohen & Steers asked an independent research firm to poll financial advisors on how they define and allocate client assets to real asset categories. Our respondents came from a broad range of distribution channels, including wirehouse firms, independent broker/dealers and registered investment advisors, among others. The requests for participation were sent to members of the WealthManagement.com database, from which recipients were randomly selected across the membership. Requests for participation were sent out in December 2013 to a total of 230,000 members. Some highlights from our 660 respondents to the survey are listed below.

<table>
<thead>
<tr>
<th>%</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>75%</td>
<td>believe that the economy will continue to improve gradually in 2014, which speaks to the overall optimism of our respondents.</td>
</tr>
<tr>
<td>90%</td>
<td>use real assets in client portfolios.</td>
</tr>
<tr>
<td>60%</td>
<td>prefer actively managed strategies for real assets exposure.</td>
</tr>
<tr>
<td>47%</td>
<td>listed diversification as the #1 reason to invest in real assets.</td>
</tr>
</tbody>
</table>

For a summary of Cohen & Steers' survey on Real Assets, Real Assets by the Numbers, visit our website at cohenandsteers.com.

Index Definitions

An investor cannot invest directly in an index, and index performance does not reflect the deduction of any fees, expenses or taxes. The Bloomberg Barclays U.S. 7-10 Year Treasury Index is comprised of U.S. Treasury Notes. The Citigroup 3-Month U.S. Treasury Bill Index tracks the performance of U.S. Treasury bills with a remaining maturity of three months. The Dow Jones Brookfield Global Infrastructure Index measures the stock performance of publicly listed infrastructure companies. The index intends to measure all sectors of the infrastructure market. The Dow Jones UBS Commodity Index is a broadly diversified index composed of commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metals Exchange. The FTSE NAREIT Equity REIT Index is an unmanaged, market-capitalization-weighted index of all publicly traded U.S. REITs that invest predominantly in the equity ownership of real estate, not including timber or infrastructure. The NCREIF Fund Index-Open-End Diversified Core Equity Index, or NFI-ODCE, is a capitalization-weighted, gross-of-fees, time-weighted return index reporting both historical and current results of 30 open-end commingled funds pursuing a core investment strategy. The S&P 500 Index is an unmanaged index of 500 large-capitalization, publicly traded stocks representing a variety of industries. The S&P Global Natural Resources Index includes 90 of the largest publicly traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified, liquid and investable equity exposure across three primary commodity-related sectors: Agribusiness, Energy, and Metals & Mining. The S&P GSCI commodity index is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

Performance data quoted represents past performance. Past performance is no guarantee of future results. The views and opinions in the preceding commentary are as of the date of publication and are subject to change without notice. This material represents an assessment of the market environment at a specific point in time, should not be relied upon as investment advice, is not intended to predict or depict performance of any investment and does not constitute a recommendation or an offer for a particular security. We consider the information in this presentation to be accurate, but we do not represent that it is complete or should be relied upon as the sole source of suitability for investment. There is no guarantee that any historical trend illustrated in this commentary will be repeated in the future, and there is no way to predict precisely when such a trend will begin. There is no guarantee that a market forecast made in this commentary will be realized.

Understanding the Risks of Investing

A real assets strategy is subject to the risk that its asset allocations may not achieve the desired risk-return characteristic, underperform other similar investment strategies or cause an investor to lose money. The risks of investing in REITs are similar to those associated with direct investments in real estate securities. Property values may fall due to increasing vacancies, declining rents resulting from economic, legal, tax, political or technological developments, lack of liquidity, limited diversification and sensitivity to certain economic factors such as interest rate changes and market recessions. An investment in commodity-linked derivative instruments may be subject to greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. Among the risks presented are market risk, credit risk, counterparty risk, leverage risk and liquidity risk. The use of derivatives can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives. Infrastructure issuers may be subject to adverse economic occurrences, government regulation, operational or other mishaps, tariffs and changes in tax laws and accounting standards. Foreign securities involve special risks, including currency fluctuation and lower liquidity. The market value of securities of natural resource companies may be affected by numerous factors, including events occurring in nature, inflationary pressures and international politics. Because the strategy invests significantly in natural resource companies, there is the risk that the strategy will perform poorly during a downturn in the natural resource sector.

Futures Trading Is Volatile, Highly Leveraged and May Be Illiquid. Investments in commodity futures contracts and options on commodity futures contracts have a high degree of price variability and are subject to rapid and substantial price changes. Such investments could incur significant losses. There can be no assurance that the options strategy will be successful. The use of options on commodity futures contracts is to enhance risk-adjusted total returns. The use of options, however, may not provide any, or only partial, protection for market declines. The return performance of the commodity futures contracts may not parallel the performance of the commodities or indexes that serve as the basis for the options it buys or sells; this basis risk may reduce overall returns.

This commentary must be accompanied by the most recent Cohen & Steers Real Assets Fund fact sheet if used in connection with the sale of mutual fund shares.