The Cohen & Steers Approach to Investing in Real Assets

Real assets—real estate, commodities, natural resource equities and infrastructure—form the core of the investment strategies managed by Cohen & Steers. Our approach to portfolio management combines top-down tactical views with bottom-up fundamental research. At all levels, we incorporate risk management as a critical part of the equation.

Real Asset Categories: 2014 Year-to-Date Highlights

**Global Real Estate**
*Offices, Apartments, Shopping Centers, Regional Malls, Industrial, Self Storage, Health Care and Hotels*

- Improving economic trends, low borrowing costs and strong industry fundamentals led to a broad-based rally that generated positive returns from all markets except Japan.
- U.S. REITs were particularly strong, broadly outpacing U.S. equities.
- Commercial landlords in Europe benefited from accelerating industrial production, falling unemployment and slowing inflation, particularly in Italy, Spain and Greece. The U.K. also had strong returns amid an accelerating economy and stable political environment.
- Emerging markets stabilized following a volatile January.

**Commodities**
*Energy, Precious Metals, Base Metals and Agriculture*

- Commodities registered their best overall year-to-date returns since 2009, with wide-ranging participation from a cross section of energy, metals and agricultural subsectors.
- Harsh weather in the U.S. drove energy prices higher. Natural gas prices moved higher and drove U.S. storage levels well below their five-year average, while crude oil was mixed.
- Grains reacted to the political turmoil in Ukraine, a major global grain exporter.
- In precious metals, gold rebounded amid concerns over China's slowing growth and mounting tensions in Ukraine. Palladium has been a standout, rising on higher demand expectations and the potential for reduced supplies from Russia.

**Global Natural Resource Equities**
*Energy, Metals & Mining and Agribusiness*

- Global natural resource equity returns lagged those of the underlying commodities, primarily due to metals & mining companies, as they reacted to China's slowing growth and the uncertainty in Ukraine.
- Agribusiness was less volatile and a top-performing sector, led by protein prices from hogs, cattle and chicken. Higher grain prices caused a reduction in cattle herds and put upward pressure on beef. The deadly swine virus in the U.S. continued to threaten U.S. pork production, while outbreaks were reported globally.
- Companies with exposure to U.S. natural gas performed well, while oil companies were relatively range bound. However, the spike in gas prices and Ukraine's turmoil ushered in a renewed focus on North American exploration and production companies (E&P), which do not own Russian assets.

**Global Listed Infrastructure & MLPs**
*Utilities, Pipelines, Transportation and Communications*

- Electric utilities rallied following a multi-year earnings decline in the U.S. and Europe. Since they tend to have high leverage, utilities also benefited from continued low interest rates.
- Midstream energy companies have performed well, especially those with healthy fundamentals, forecasted distribution growth and exposure to “demand-pull” themes like U.S. energy exports.
- The water subsector, mostly domiciled in Europe, was a top performer, as it benefited from the region’s strengthening economy. Toll roads and airports were also lifted by their European components, which saw increased traffic and passenger volumes.
A Case for Adding a Strategic Allocation to Real Assets

Some investors design their asset allocation strategies as if market trends will remain stable over the long term. But the fact is, markets change frequently, creating periods when the winners and losers trade places. This is true today as we move beyond the slow-growth stage of recovery, and it was also true during the most recently completed cycle that stretched from April 2001 through the end of 2007. The case study below explores this period, as determined by the National Bureau of Economic Research (NBER), from the cycle’s previous peak through the trough of recession and back again.

Our case study compares the asset class performance of stocks, bonds and a diversified blend of real assets, equally divided among real estate, commodities, natural resource equities and global listed infrastructure. Notably, the returns from real assets and stocks were strongest when the economy was in the mid-to-late stages of economic expansion, while bonds outperformed earlier in the cycle as the economy slowed down and dipped into recession. Of course, not all business cycles follow the same patterns, and few investors are adept at predicting when such performance shifts will occur. For this reason, we believe that investors should maintain broad diversification through allocations to stocks, bonds and alternative investments. Liquid real assets, in our view, can provide such alternatives diversification.

Exhibit 1: An Economic Cycle Case Study
Asset Class Performance, 4/01–12/07

At December 31, 2007. Source: Bloomberg, Thomson Reuters Datastream and Cohen & Steers. Performance data quoted represents past performance. Past performance is no guarantee of future results. 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. 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. Returns reflect average year-over-year returns for each asset class, calculated monthly within each stage of the business cycle. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes.

The Diversified Real Assets Blend is represented by an equally weighted blend of Real Estate, Commodities, Natural Resource Equities and Infrastructure. Real Estate is represented by the FTSE NAREIT Equity REIT Index from 4/30/01 through 2/28/05 and is linked to the FTSE/EPRA NAREIT Developed Real Estate Index thereafter. Commodities are represented by the Dow Jones-UBS Commodity Index. Natural Resource Equities are represented by a 50/50 blend of the Datastream World Oil & Gas Index and Datastream Basic Materials Index. Infrastructure is represented by a 50/50 blend of the Datastream Pipelines Index and Gas, Water and Multi-Utilities Index. Stocks are represented by the S&P 500 Index. Bonds are represented by the BofA Merrill Lynch U.S. 7–10 Year Treasury Index. See index definitions on the back cover.

Characteristics associated with the various stages of the economic cycle are highlighted on the back cover. GDP is the sum of goods and services of a country over a specific period of time.
An Objective-Driven Way to Add Real Assets Diversification

There is no one-size-fits-all solution that answers this frequently asked question about real assets, “How much is enough?” But we can suggest a logical place to start. That is, to divide the portfolio’s assets into two broad portfolio objectives: income and growth.

Bonds have traditionally been used to generate portfolio income, while equities are often employed to achieve growth. In our view, real assets should also be aligned with a portfolio’s growth allocation, because these growth and income categories tend to respond positively to improving economic growth. This trend was illustrated in our 2001–2007 Economic Cycle Case Study on the previous page. But more important is that a strategic allocation to the Diversified Real Assets Blend, in our view, was beneficial over the long term, as measured by return, volatility and Sharpe Ratio. Exhibit 2 below shows these results for the 20-year period ended May 31, 2014. Of course, each client’s investment objectives are unique, and the tolerance for risk should also be considered. Moreover, some clients may already have an allocation to other types of alternatives, such as hedge funds and private equity. For these investors, we believe that further diversification could be achieved through a multi-asset-class allocation to liquid real asset categories.

An allocation to real assets over the past 20 years improved portfolio efficiency, with enhanced returns and lower volatility.
The Anatomy of a Business Cycle

Though a recession is commonly associated with two consecutive quarters of negative GDP growth, it is more broadly defined by the National Bureau of Economic Research as a significant decline in economic activity that is spread across the economy and lasts more than a few months. It is normally visible in real GDP, real income, employment, industrial production, and wholesale and retail sales. While each business cycle is different, the table below highlights some common characteristics of recessions and the various stages of early-, mid- and late-cycle expansions.

<table>
<thead>
<tr>
<th>Recession</th>
<th>Early-Cycle Expansion</th>
<th>Mid-Cycle Expansion</th>
<th>Late-Cycle Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>While economic growth is slowing, inflation remains high due to lagging monetary policy. As the recession progresses, growth contracts, slack in the economy—as measured by high unemployment and low capacity utilization—builds and inflation falls.</td>
<td>In the early stages of expansion, slack in the economy remains. Wage growth remains weak and inflation tends to be low. Often, economic growth is below average.</td>
<td>Growth continues to accelerate to its peak, and all spare capacity has been exhausted. Confidence is high and wage growth picks up. Inflation is rising but from low levels.</td>
<td>Growth decelerates from above-trend to below-trend levels, while inflation peaks.</td>
</tr>
</tbody>
</table>

Index Definitions

An investor cannot invest directly in an index, and index performance does not reflect the deduction of any fees, expenses or taxes.

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.

Copyright © 2014 Cohen & Steers, Inc. All rights reserved.

cohenandsteers.com

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 commentary 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 any 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. 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 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. 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.

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.

Copyright © 2014 Cohen & Steers, Inc. All rights reserved.

cohenandsteers.com

Advisors & Investors: 800 330 7348
Institutions & Consultants: 212 822 1620
NWS006 0614