

The Elements of Investing in Real Assets

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Over the past few years, prices for commodities like gold, energy and agricultural products have moved sharply higher. Some observers see this as a harbinger of greater inflation to come; others dismiss the rise as more transitory. This latter view is supported by an overhang of slowing economic growth, as developed markets work through a variety of debt and fiscal challenges. But it is not supported by the everyday experience of the American consumer, saddled with rising prices for food and energy.

We believe inflation is destined to move higher, given the long-term impact of massive global monetary stimulus, growth in emerging markets and barriers to production of key natural and agricultural resources. As a tool to prepare for this outcome, we have developed a diversified real assets investment framework. Our perspective is backed by extensive research into the characteristics and drivers of inflation. We analyzed the performance and fundamental merits of real asset classes, like commodities, natural resource equities and real estate. Our conclusion is that a portfolio systematically allocated to these asset classes can achieve attractive long-term returns and excel in periods of rising inflation.

Setting the Stage

Defining the Objectives and Characteristics of a Real Assets Framework

In our view, the design of a real assets investment strategy is not just about inflation protection; it's also about delivering attractive long-term returns with less volatility than found in most individual real asset classes. When inflation is rising, the strategy's return potential should rise as well. When inflation is easing, its diversified return profile should be less volatile than those of individual real asset classes. And finally, the strategy should offer diversification⁽¹⁾ benefits for portfolios of stocks and bonds. As we applied these objectives to the design of a real assets framework, we identified five central themes.

1. A real assets strategy should excel in periods of true economic inflation.

In our view, the Consumer Price Index (CPI)⁽²⁾ is a less-than-perfect gauge of inflation. For this reason, strategies designed to track CPI may prove disappointing in periods of true economic inflation.

2. A real assets strategy should be adaptable to changing macroeconomic conditions.

Understanding the drivers of inflation and how they change over time is key. Case in point: inflation in the 1970s was significantly impacted by rising labor and energy costs, while today, emerging markets have been driving inflation through commodity consumption.

3. A real assets strategy should be effectively diversified.

It is difficult to forecast how changing macro conditions will influence inflationary trends, or whether industry fundamentals will be conducive to pricing power and inflation protection. These factors underscore the importance of systematic diversification.

4. A real assets strategy should comprise core real assets—defined as hard, tangible assets whose values are driven by barriers to supply and rising replacement costs.

We believe that commodities, natural resource equities and real estate (REITs) should form the core of a diversified real assets strategy. To enhance portfolio stability, these assets should be paired with diversifiers like U.S. Treasury bills and high-grade variable rate notes denominated in multiple currencies. Unlike many other strategies for inflation protection, we do not believe that Treasury Inflation Protected Securities (TIPS) should be a core allocation in a real assets framework; rather, these instruments should be used opportunistically.

5. A real assets strategy should consider the global linkages of inflation in its design.

As the world becomes more interconnected, it is likely that the transmission of inflation among countries will rise. At the same time, it is important to recognize that inflation affects different countries in different ways.

These themes have shaped our view of inflation and its importance in the design of a real assets strategy. They have also proved relevant in our findings on the performance, volatility and correlations of the various real asset classes over different inflation regimes. As we share this research and our rationale for each theme, we will build a framework for a diversified real assets strategy.

(1) Diversification does not ensure against loss.

(2) The Consumer Price Index (CPI) is a broad yardstick of consumer inflation. It measures the average price changes for a diverse basket of goods and services typically purchased by urban consumers, across diverse households and geographies.

Analyzing the Characteristics and Impact of Inflation

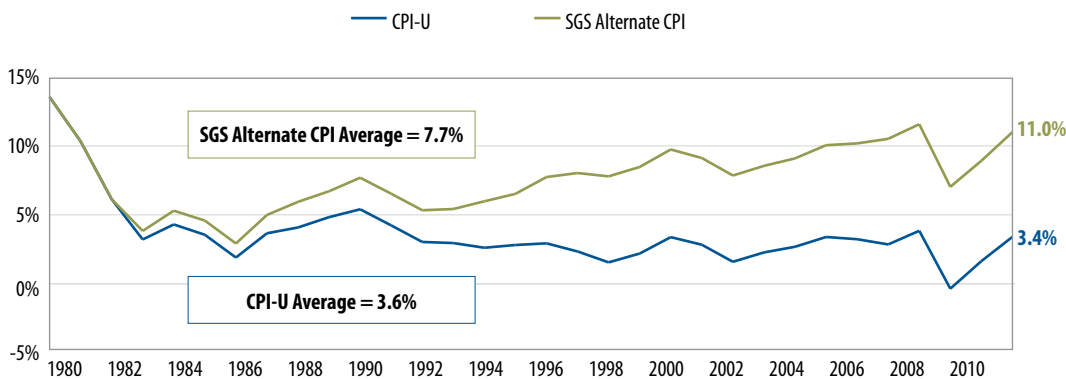
CPI, as a measure of consumer price inflation, reaches deeply into the pockets of most Americans. It determines annual increases to Social Security and Medicare payments. It also sets payments for food stamps, school lunch benefits and the escalations of many government and private-sector pensions and contracts.

The methodology for calculating CPI has changed significantly over the years. The first major revision came with the introduction of “rental equivalence” in the early 1980s. Through this change, the calculation of the CPI’s shelter component, based on the cost of buying a home, was revised to reflect the cost of renting a home. A decade later, hedonic quality adjustments were applied to measure how consumer decisions changed with the effects of product obsolescence and innovation. Then, in the late 1990s, a geometric mean calculation was introduced to account for product substitutions, based on consumer reactions to rising prices or discounting.

According to the Bureau of Labor Statistics (BLS), which calculates and reports these data, the adjustments were designed to deliver a more accurate measure of CPI. But critics suggest there was another purpose; to control CPI-linked government expenditures. One such critic is economist John Williams of Shadow Government Statistics. His model has recalculated the year-over-year change in CPI using the BLS methodology in place in the early 1980s. By omitting the BLS adjustments, the restated annual rate of inflation (from 1980 through the present) rose from the official BLS 3.6% annual rate to 7.7%. To us, this divergence suggests that CPI is a less-than-perfect, if not understated, gauge of true economic inflation.

We see the CPI as a less-than-perfect measure of inflation.

EXHIBIT 1. CPI-U AND SHADOW GOVERNMENT STATISTICS (SGS) INFLATION
Year-Over-Year Change Through December 2011



BLS methodology changes have lowered CPI inflation.

As of December 31, 2011.

Source: shadowstats.com.

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.

CPI-U is a broad-based inflation measure based on price changes in goods and services purchased for consumption by urban consumers.

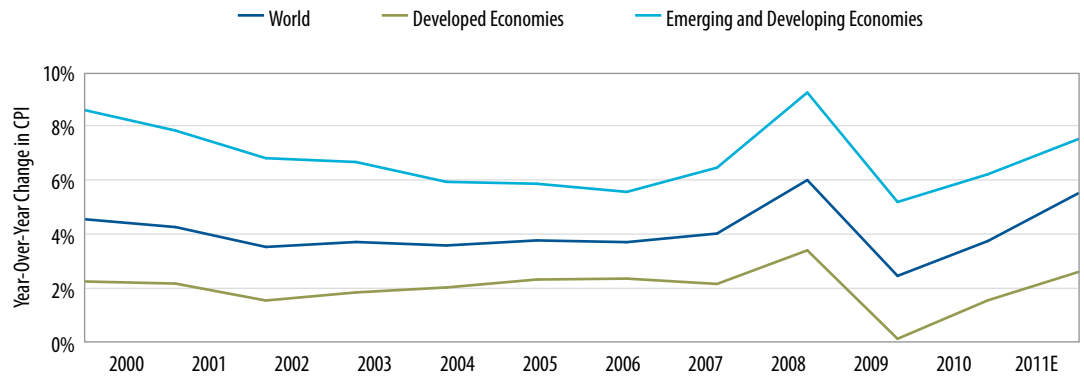
More Changes in the Works

Further revisions to how the BLS applies its methodology are under consideration, such as a recent proposal to index Social Security escalations to a chain-weighted consumer price index. As with earlier adjustments, chain-weighting would likely reduce CPI inflation, and with it, escalations in entitlement spending. To put this in perspective, CPI inflation has risen by an average annual rate of 2.4% over the past decade. A look at historical BLS data tells us that chain-weighting the calculation would have reduced average annual CPI inflation to 2.2%.

The Globalization Factor

In the design of a real assets strategy, we believe it is important to consider the global linkages of inflation. Exhibit 2 delineates the long-term inflation history across developed and emerging markets.

EXHIBIT 2. HISTORICAL CPI TRENDS BY REGION



As of December 31, 2011.

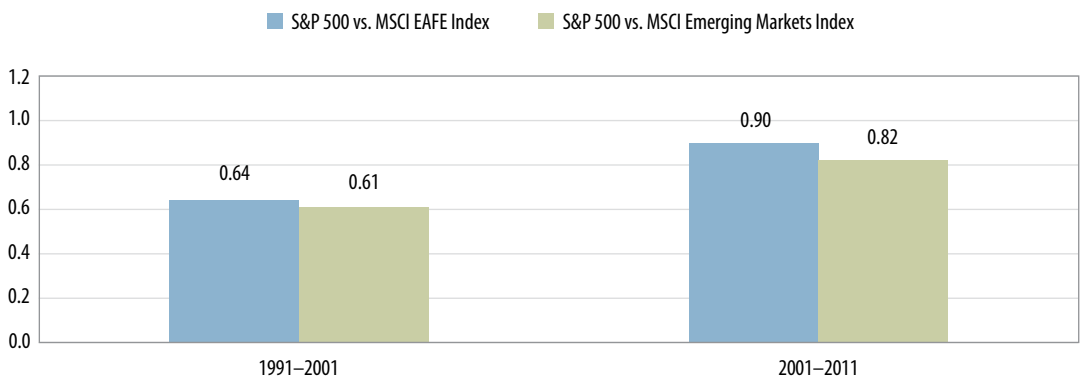
Source: Semi-annual IMF World Economic Database, September 2011.

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.

Globalization has driven equity correlations higher.

As global trade has risen over the past decade, so have equity correlations among country and industry sector indexes. These ties are illustrated in the comparison below of U.S. and non-U.S. market correlations over the past ten years (2002–2011) to those of the previous decade (1992–2001). As these trends continue and the global economy becomes more interconnected, we expect that the transmission of inflation across geographic regions will rise as well.

EXHIBIT 3. CORRELATIONS OF THE S&P 500 INDEX WITH THE MSCI EAFE AND EMERGING MARKETS INDEXES



As of December 31, 2011.

Source: Morningstar Direct, Cohen & Steers.

Past performance is no guarantee of future results. Investors cannot invest directly in an index. 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.

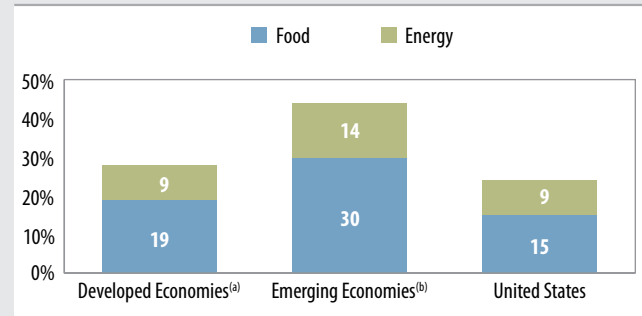
See index definitions on page 27.

Stealth Inflation? Core CPI Ignores Food and Energy Costs

Much of our research was focused on the performance of commodities and natural resources in various periods of rising or easing inflation. Interestingly, the BLS ignores food and energy costs in the calculation of core CPI because these commodity-centric components tend to be too volatile from month to month. Yet the costs represent a significant percentage of monthly consumer expenditures: about 24% in the U.S. and a far larger percentage in the BRIC nations—Brazil (30%), Russia (38%), India (31%) and China (47%).

Exhibit A compares the food and energy weighting within CPI by geographic region:

EXHIBIT A. FOOD AND ENERGY WEIGHTINGS IN CPI
Developed vs. Emerging Economies



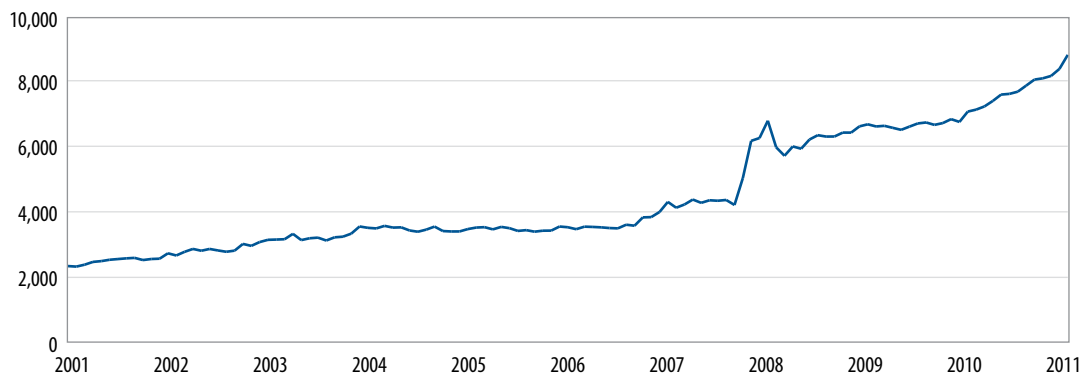
Source: September 2011 International Monetary Fund, World Economic Outlook Database. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend will begin. Chart reflects median average percent of CPI of food and energy costs in developed vs. emerging economies.

(a) Developed economies include Australia, Canada, United Kingdom, France, United States, Singapore, Hong Kong, Italy, Germany, Japan. Singapore data are ex-energy.
(b) Emerging economies include China, Taiwan, South Africa, Brazil, Mexico, India, Philippines, Indonesia, Korea, Thailand, Malaysia, Russia; China data are ex-energy.

The long-term effects of massive quantitative easing could also play a role in global inflation trends. This is not just a U.S.-centric problem; it is a concern across developed economies worldwide. Exhibit 4 tracks the historical balance-sheet expansion of the four largest G-8 economies (the U.S., European Union, Japan and the U.K.), which in aggregate have tripled over the past decade.

The long-term impact of quantitative easing is a global issue.

EXHIBIT 4. DEVELOPED ECONOMIES BALANCE SHEETS
(in US\$ billions)



As of December 31, 2011.

Source: ThomsonReuters Datastream.

Data include U.S. Federal Reserve, European Central Bank, Bank of Japan and Bank of England.

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.

Defining the Scope of Our Research

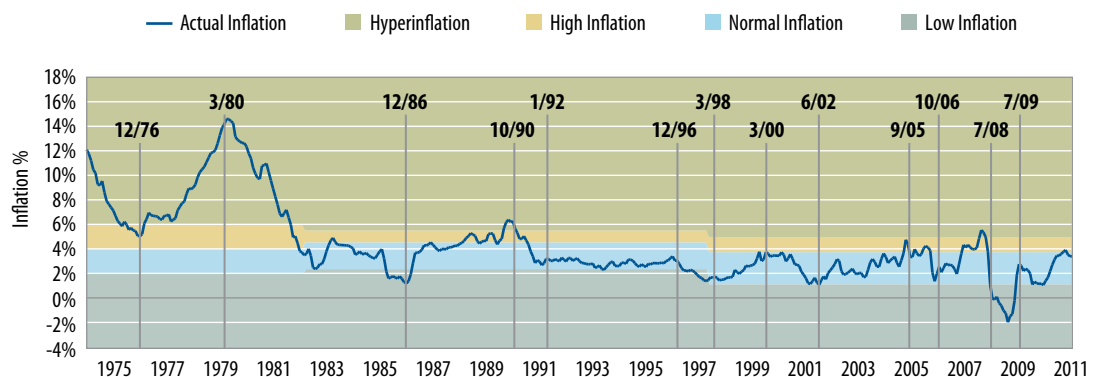
We chose the mid-1970s as the starting point for our research into asset class performance, for several reasons. This point in time allowed us to balance the dual needs of 1) a relatively long look-back period and 2) a point in time generally representative of the current market structure. We also could avoid the economic turbulence and transformation in the early part of the decade, triggered by the demise of the U.S. gold standard and fallout from the Arab oil embargo.

The Inflation Regimes and Asset-Class Study Periods

The period from December 1974 through December 2011 spanned 14 different inflation regimes—six rising, seven easing and one that was relatively flat.⁽¹⁾ Within this 37-year timeframe, we conducted extensive research into the performance and fundamental merits of various asset classes during periods of rising and easing inflation. We used public index data to compare investment returns, volatility and correlations. Since inception dates varied among indexes, the study period for each category was customized to coincide with the availability of data.

The inflation regimes and study period for each asset class are summarized in Exhibit 5.

EXHIBIT 5. PERIODS OF RISING AND EASING INFLATION
Year-Over-Year CPI Change (%), December 1974 Through December 2011



Over our 37-year study, there were 14 inflationary regimes.

Study periods for each asset class were customized according to index inception dates.

12/74–12/11: The Study Period for Gold, REITs, Stocks and Bonds
14 Inflation Regimes: 6 Rising, 7 Easing, 1 Flat

1/83–12/11: The Study Period for Commodities
12 Inflation Regimes: 5 Rising, 6 Easing and 1 Flat

12/94–12/11: The Study Period for Natural Resource Equities
9 Inflation Regimes: 4 Rising, 4 Easing, 1 Flat

3/98–12/11: The Study Period for TIPS
8 Inflation Regimes: 4 Rising, 4 Easing

As of December 31, 2011.

Source: Bloomberg, Cohen & Steers.

Past performance is no guarantee of future results. Investors cannot invest directly in an index. 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.

Inflation regimes are based on the percentage change in year-over-year CPI. Prior to 12/1982, regimes were defined by absolute levels of 2%, 4%, and 6%. From 1/1983 to 12/1997 and 1/1998 to 12/2011 regimes were defined by standard deviation from the period mean. Our inflationary regimes were defined as follows: Hyperinflation: Above 6% year over year. High Inflation: Between 4% and 6% year over year. Normal Inflation: Between 2% and 4% year over year. Low Inflation: When the annual year-over-year change of CPI was below 2%.

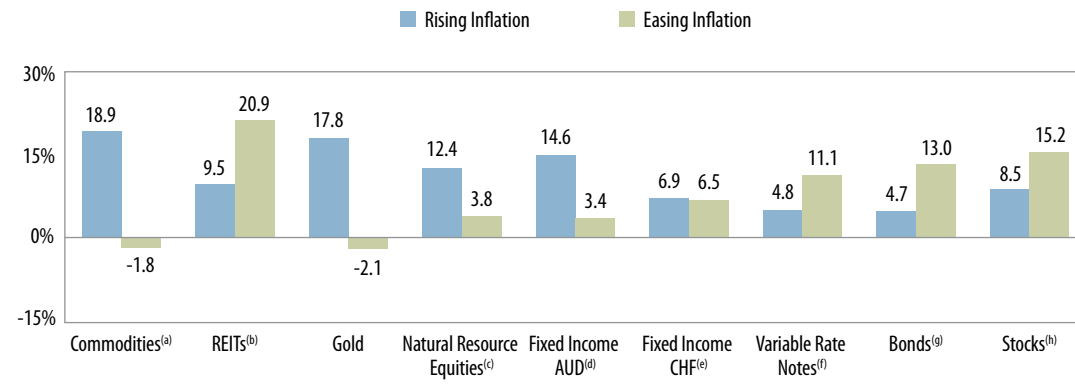
Note that the performance of various portfolio diversifiers over rising and easing inflation regimes is analyzed over date ranges for available index data. See Exhibit 16 on Page 17 for details.

(1) Although inflation trended downward during the fourth quarter of 2011, the degree and time frame of the decline were not extensive enough to warrant a reclassification of the inflation regime.

A Preview of Our Findings

Exhibit 6 highlights the strong relative performance of real asset classes over periods of rising inflation. Our paper will expand on this analysis with a more detailed performance discussion of each real asset class and the instruments we define as portfolio diversifiers. You will find a more detailed discussion of our methodology for approaching each asset class and the study periods in the Appendix.

EXHIBIT 6. ASSET CLASS PERFORMANCE IN PERIODS OF RISING AND EASING INFLATION
Since Inception Through December 2011



	Real Asset Classes				Portfolio Diversifiers			Equity and Fixed Income Benchmarks	
	Commodities	REITs	Gold	Natural Resource Equities	Fixed Income AUD	Fixed Income CHF	Variable Rate Notes	Bonds	Stocks
Study Period	1/83–12/11	12/74–12/11	12/74–12/11	12/94–12/11	12/85–12/11	12/85–12/11	12/75–12/11	12/74–12/11	12/74–12/11
# of Rising Regimes	5	6	6	4	5	5	6	6	6
# of Easing Regimes	6	7	7	4	6	6	7	7	7

As of December 31, 2011.

Source: Bloomberg, Cohen & Steers.

Past performance is no guarantee of future results. Investors cannot invest directly in an index.

(a) Commodities are represented by a 50/50 blend of the Energy and Non-Energy components of the S&P GSCI Commodities Index from January 1983 through December 1997. From December 1997 through December 2011, Commodities are represented by the Dow Jones UBS Commodities Index.

(b) REITs are represented by the FTSE NAREIT All Equity REITs Index.

(c) Natural Resource Equities are represented by the S&P Energy Index (50%), S&P Materials Index (50%).

(d) Fixed Income AUD is represented by the BofA Merrill Lynch Australia Government Index.

(e) Fixed Income CHF is represented by the BofA Merrill Lynch Swiss Government Index.

(f) Variable Rate Notes are represented by the Barclays Capital U.S. Government/Credit Float-Adjusted 1–5 Year Index.

(g) Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index.

(h) Stocks are represented by the S&P 500 Index.

Returns over the study period are compound annual returns; annual returns over rising and easing inflation are time-weighted. Periods of rising and easing inflation were based on the percentage change in year-over-year CPI. Prior to 12/1982, regimes were defined by absolute levels of 2%, 4%, and 6%. From 1/1983 to 12/1997 and 1/1998 to 12/2011 regimes were defined by standard deviation from the period mean. Our inflationary regimes were defined as follows: Hyperinflation: Above 6% year over year. High Inflation: Between 4% and 6% year over year. Normal Inflation: Between 2% and 4% year over year. Low Inflation: When the annual year-over-year change of CPI was below 2%. From December 1974–December 2011, there were six periods of rising inflation, seven of easing inflation and one that was relatively flat.

See index definitions on page 27. Our methodology is described in further detail in the Appendix.

Why Pricing Power Matters

During the course of our analysis, we found a common attribute among many of the real assets industry groups in our study: pricing power—the ability to raise prices in inflationary periods, thereby passing along rising costs to customers. Many fell into the natural resources category, a group we believe adds value in a real assets strategy. This view is consistent with a recent study by ISI Group, which ranked 108 of the 125 Standard & Poor’s Global Industry Classification Standard (GICS) industry groups by pricing power, summarized in Exhibit B.

The ISI study illustrated that pricing power can help drive performance during periods of high inflation. To illustrate, Exhibit C compares total returns of the GICS categories during the inflationary cycle from December 2003 through December 2007. Each of these industry groups, equally-weighted, was ranked by pricing power. The chart aggregates the performance of those industry groups in the top and bottom quintiles, and then compares their performance to that of the overall market. Note that industries in the top quintile of pricing power far outperformed the market, returning 939 basis points per year more than the average return for the market. By contrast, the bottom-quintile industries underperformed by just over 300 basis points per year.

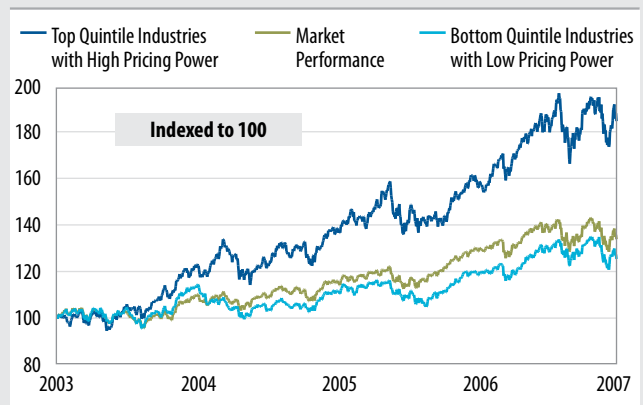
The next section explores the macroeconomic and fundamental drivers behind the performance of these and other real asset classes.

EXHIBIT B. TOP 10 INDUSTRIES RANKED BY PRICING POWER

1	Coal
2	Gold
3	Diversified Metals and Mining
4	Integrated Oil and Gas
5	Oil and Gas Equipment and Services
6	Steel
7	Oil and Gas Refining, Marketing
8	Aluminum
9	Commodity Chemicals
10	Fertilizers and Agricultural Chemicals

As of April 30, 2011.
Source: ISI Group.

EXHIBIT C. INDUSTRY PERFORMANCE RANKED BY PRICING POWER



As of April 30, 2011.
Source: ISI Group.

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Building the Investment Case

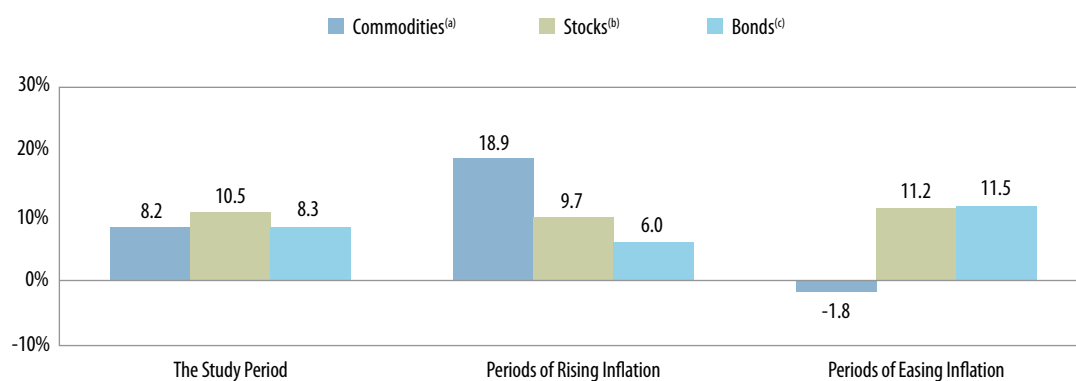
Commodities

Asset Class Performance

Our study period for commodities, which spanned January 1983 through December 2011, comprised five periods of rising inflation and six periods of easing inflation. As shown in Exhibit 7, returns were highest in the five periods of rising inflation (18.9% vs. 9.7% for stocks and 6.0% for bonds). However, commodities have a downside: they can decline significantly when inflation is easing. The index delivered a -1.8% return over the four periods of easing inflation, vs. 11.2% for stocks and 11.5% for bonds.

Commodities performed best when inflation was rising.

EXHIBIT 7. PERFORMANCE OF COMMODITIES VS. STOCKS AND BONDS
January 1983 Through December 2011



As of December 31, 2011.

Source: Bloomberg, Cohen & Steers.

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(a) Commodities are represented by a 50/50 blend of the Energy and non-Energy components of the S&P GSCI Commodities Index from January 1983 through December 1997. Returns from January 1997 through December 2011 are represented by the Dow Jones UBS Commodities Index.

(b) Stocks are represented by the S&P 500 Index.

(c) Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index.

Returns over the study period are compound annual returns; annual returns over rising and easing inflation are time-weighted. Inflation regimes, representing the standard deviation from the period mean, were defined as follows: Hyperinflation: Above 6% year over year; High Inflation: Between 4% and 6% year over year; Normal Inflation: Between 2% and 4% year over year; Low Inflation: When the annual year-over-year change of CPI was below 2%. From December 1983–December 2011, there were five periods of rising inflation, six of easing inflation and one that was relatively flat.

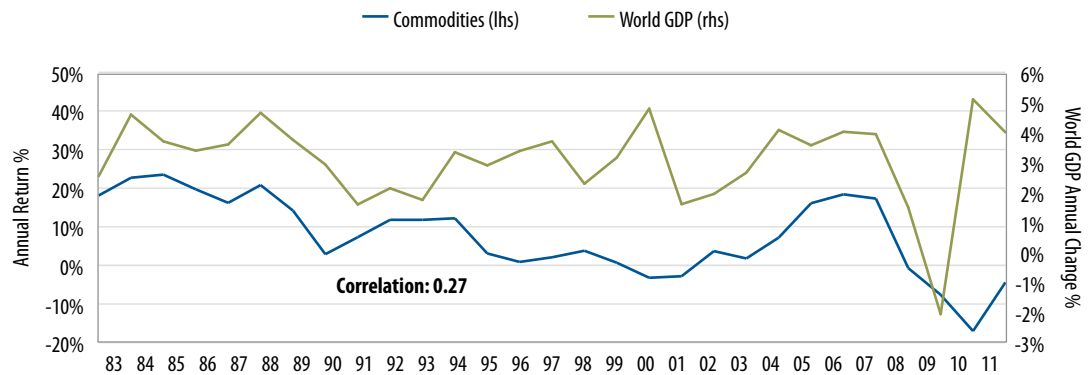
See index definitions on page 27. Our methodology is described in further detail in the Appendix.

Macroeconomic and Fundamental Considerations

One reason for the outperformance of commodities in periods of rising inflation is that commodity prices respond directly to levels of economic activity, due to the underlying dynamics of demand, supply, production and the commodity futures market structure. The relatively high 0.27 correlation of commodities with GDP growth over the study period affirms this relationship. Exhibit 8 on the next page tracks the relationship of changes in commodity index prices to world GDP growth from January 1983 through December 2011 (estimated).

Commodities have a relatively high correlation with global GDP growth.

EXHIBIT 8. COMMODITY ANNUAL RETURNS VS. WORLD GDP ANNUAL CHANGES
December 1983 to December 2011



As of December 31, 2011.

Source: Bloomberg, Cohen & Steers.

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Commodities are represented by a 50/50 blend of the Energy and Non-Energy components of the S&P GSCI Commodities Index from January 1983 through December 1997. From December 1997 through December 2011, Commodities are represented by the Dow Jones UBS Commodities Index.

GDP = Gross Domestic Product, which refers to the market value of all final goods and services produced within a country or region over a specified period.

Commodities can be an effective diversifier for a broad-based equity portfolio.

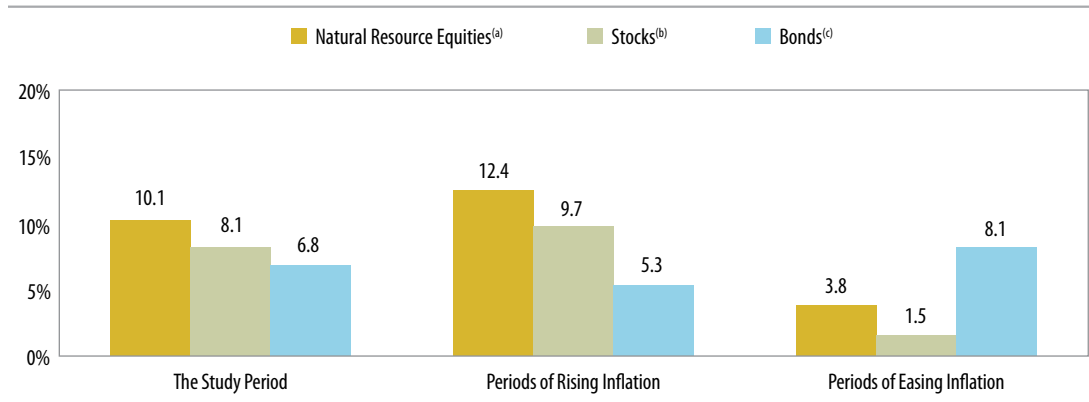
In contrast to commodities, equities have shown a lead/lag relationship with the economic cycle. They tend to underperform late in the business cycle when a slowdown is being discounted, and they tend to outperform early in the investment cycle when a recovery is anticipated. For this reason, commodities can enhance the diversification potential of a broad-based equity portfolio.

Natural Resource Equities

Asset Class Performance

Public index data were not available for natural resource equities until the 1994 inceptions of the S&P Energy and S&P Materials Indexes. However, our research builds a strong investment case for this real asset component, based on fundamental considerations and available performance metrics. Our analysis spans four rising and four easing inflation regimes from December 1994 through December 2011. Over this study period, energy-related equities outperformed stocks and bonds in all four periods of rising inflation. When inflation was easing, the group outperformed stocks but underperformed bonds.

EXHIBIT 9. PERFORMANCE OF NATURAL RESOURCE EQUITIES VS. STOCKS AND BONDS
December 1994 Through December 2011



Natural resource equities outperformed stocks and bonds in periods of rising inflation.

As of December 31, 2011.

Source: Bloomberg, Cohen & Steers.

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(a) Natural Resource Equities are represented by the S&P Energy Index (50%) and S&P Materials Index (50%).

(b) Stocks are represented by the S&P 500 Index.

(c) Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index.

Returns over the study period are compound annual returns; annual returns over rising and easing inflation are time-weighted. Inflation regimes, representing the standard deviation from the period mean, were defined as follows: Hyperinflation: Above 6% year over year; High Inflation: Between 4% and 6% year over year; Normal Inflation: Between 2% and 4% year over year; Low Inflation: When the annual year-over-year change of CPI was below 2%. From December 1994–December 2011, there were four periods of rising inflation, four of easing inflation and one that was relatively flat.

See index definitions on page 27. Our methodology is described in further detail in the Appendix.

Macroeconomic and Fundamental Considerations

Many natural resource companies are linked to critical and often depleting resources, which speaks to an important concept for a real assets portfolio: tangible assets with capital intensity and barriers to supply tend to see price appreciation in excess of inflation; the tighter the supply/demand picture, the better the performance vs. inflation.

Over time, we believe the price appreciation for depleting natural resources will exceed the rate of inflation. As we layer on other dynamics—increasingly erratic weather patterns, natural disasters and human destruction of the environment—a potentially dynamic macro-investing case emerges in a number of natural resource industry groups: energy, metals and mining and agriculture.

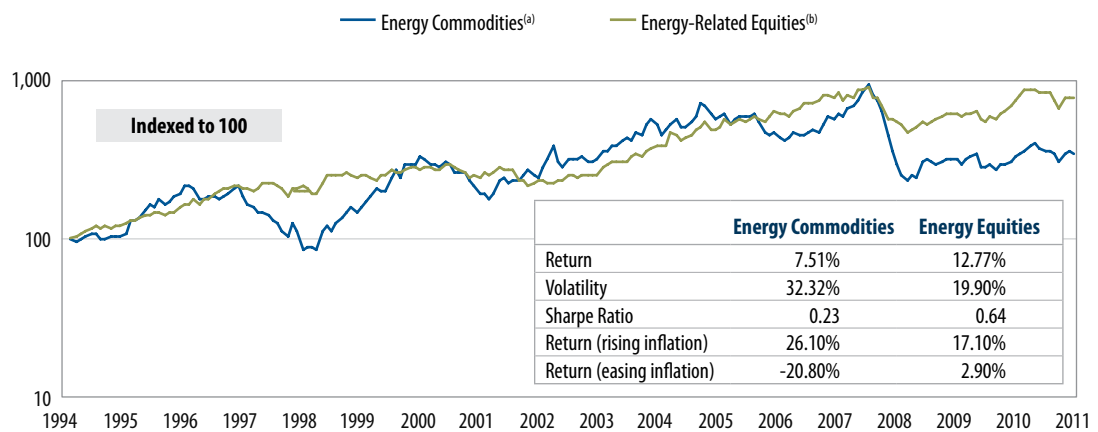
A dynamic investment case exists for natural resource equities.

Our analysis of energy-related equities vs. the underlying commodity pointed to complementary performance characteristics that can add value in a real assets portfolio. Over our study period from December 1994 through December 2011, compound annual returns were positive for both the S&P GSCI Energy Commodities Index (+7.5%) and the S&P Energy Index (+12.8%). However, these asset classes behaved differently during rising and easing inflation regimes; while the commodity outperformed the equities substantially during rising inflation regimes, the opposite was true when inflation was easing. Correlations were 0.55 between the two indexes; however, the equities offered a superior risk/return profile, with a Sharpe Ratio⁽¹⁾ of 0.64, compared with 0.23 for energy commodities. This analysis is summarized in Exhibit 10 on the next page.

(1) 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. In this analysis, a risk-free rate of 0% was used.

Energy-related equities and the underlying commodity have complementary characteristics.

EXHIBIT 10. PERFORMANCE COMPARISON—ENERGY COMMODITIES VS. ENERGY-RELATED EQUITIES
December 1994 Through December 2011



As of December 31, 2011.

Source: Bloomberg, Cohen & Steers.

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(a) Energy Commodities are represented by the S&P GSCI Energy Commodities Index.

(b) Energy-Related Equities are represented by the S&P Energy Index.

See index definitions on page 27.

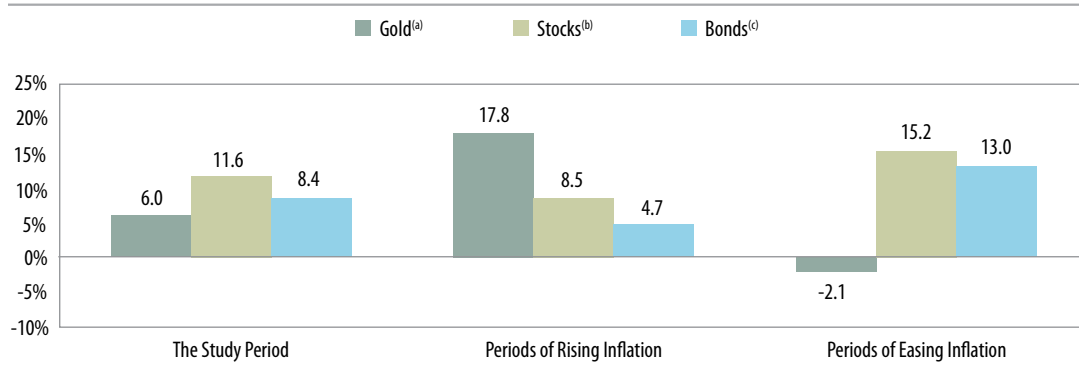
Gold

Asset Class Performance

In terms of implementation, we believe in a dual approach to investing in gold—direct gold bar ownership in a vault and share ownership of exchange-traded funds (ETFs). Direct ownership addresses issues with respect to shared ownership, government interference, or any imbalance between the paper market and physical market for gold, while ETFs provide a more liquid form of ownership.

Our study period for gold spanned the period from December 1974 through December 2011. During this time frame, there were six periods of rising inflation, during which the commodity generated an 17.8% annual return. However, gold underperformed when inflation was declining, with an annual return of -2.1% over the seven periods of easing inflation.

EXHIBIT 11. PERFORMANCE OF GOLD VS. STOCKS AND BONDS
December 1974 Through December 2011



Gold has performed well in periods of rising inflation.

As of December 31, 2011.

Source: Bloomberg, Cohen & Steers.

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(a) Gold is represented by changes in gold prices. (b) Stocks are represented by the S&P 500 Index. (c) Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index.

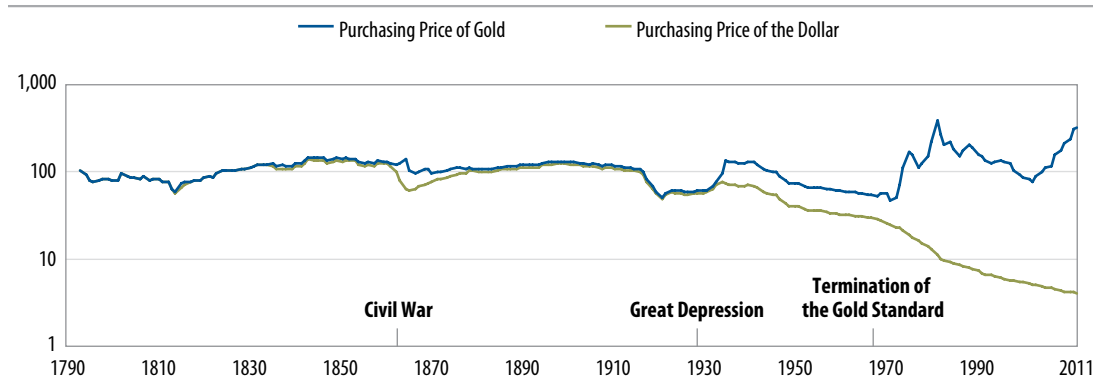
Returns over the study period are compound annual returns; annual returns over rising and easing inflation are time-weighted. Periods of rising and easing inflation were based on the percentage change in year-over-year CPI. Prior to 12/1982, regimes were defined by absolute levels of 2%, 4%, and 6%. From 1/1983 to 12/1997 and 1/1998 to 12/2011 regimes were defined by standard deviation from the period mean. Our inflationary regimes were defined as follows: Hyperinflation: Above 6% year over year. High Inflation: Between 4% and 6% year over year. Normal Inflation: Between 2% and 4% year over year. Low Inflation: When the annual year-over-year change of CPI was below 2%. From December 1974–December 2011, there were six periods of rising inflation, seven of easing inflation and one that was relatively flat.

See index definitions on page 27. Our methodology is described in further detail in the Appendix.

Macroeconomic and Fundamental Considerations

The long-term investment case for gold is not compelling: a 6.0% compound annual return and 19.4% volatility over the study period. However, gold tends to perform well in periods of expansive monetary policy, economic dislocation and geopolitical instability. It has always been a recognized store of value based on its liquidity, acceptability as a medium of exchange and portability. Exhibit 12, courtesy of measuringworth.com, frames these points with a long-term look at the purchasing power of gold vs. the U.S. dollar. Since the first gold coins in the U.S. were minted in 1793, gold’s purchasing power has more than doubled, while the U.S. dollar has lost more than 95% of its value.

EXHIBIT 12. THE PURCHASING POWER OF GOLD AND THE U.S. DOLLAR
1793 to 2011



Gold has maintained its purchasing power over the long term—unlike the U.S. dollar.

As of December 31, 2011.

Source: measuringworth.com.

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.

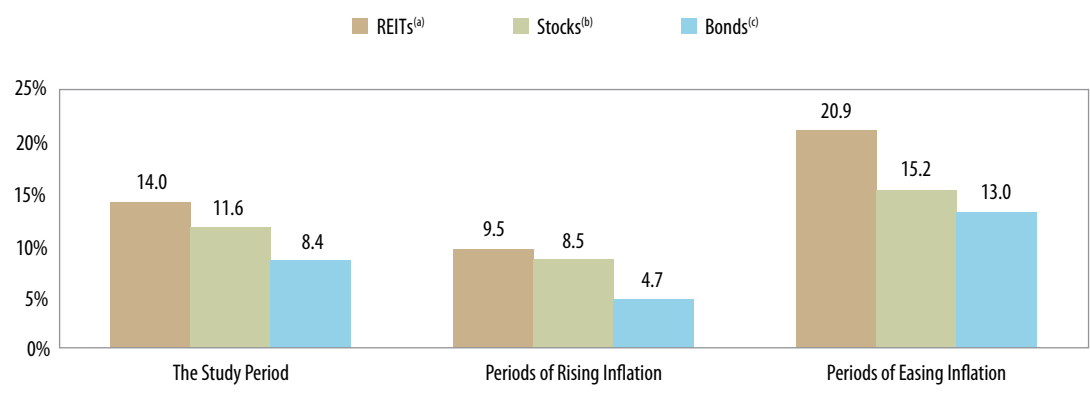
Real Estate (REITs)

Asset Class Performance

We believe that REITs are uniquely positioned to add value as a core real-asset strategy component. This group generated strong performance relative to stocks and bonds in both rising and easing periods of inflation, based on our analysis of the FTSE NAREIT Equity REIT Index from December 1974 through December 2011. Over the entire study period, REITs delivered double-digit returns, while outperforming stocks and bonds in periods of rising *and* easing inflation. This versatile performance potential, combined with generally low correlations with other core real asset classes, points to the complementary diversification benefits of REITs over different inflation regimes.

EXHIBIT 13. PERFORMANCE OF REITs VS. STOCKS AND BONDS
December 1974 Through December 2011

REITs have outperformed stocks in periods of rising and easing inflation.



As of December 31, 2011.

Source: Bloomberg, Cohen & Steers.

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(a) REITs are represented by the FTSE NAREIT Equity REIT Index.

(b) Stocks are represented by the S&P 500 Index.

(c) Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index.

Returns over the study period are compound annual returns; annual returns over rising and easing inflation are time-weighted. Periods of rising and easing inflation were based on the percentage change in year-over-year CPI. Prior to 12/1982, regimes were defined by absolute levels of 2%, 4%, and 6%. From 1/1983 to 12/1997 and 1/1998 to 12/2011 regimes were defined by standard deviation from the period mean. Our inflationary regimes were defined as follows: Hyperinflation: Above 6% year over year. High Inflation: Between 4% and 6% year over year. Normal Inflation: Between 2% and 4% year over year. Low Inflation: When the annual year-over-year change of CPI was below 2%. From December 1974–December 2011, there were six periods of rising inflation, seven of easing inflation and one that was relatively flat.

See index definitions on page 27. Our methodology is described in further detail in the Appendix.

Macroeconomic and Fundamental Considerations

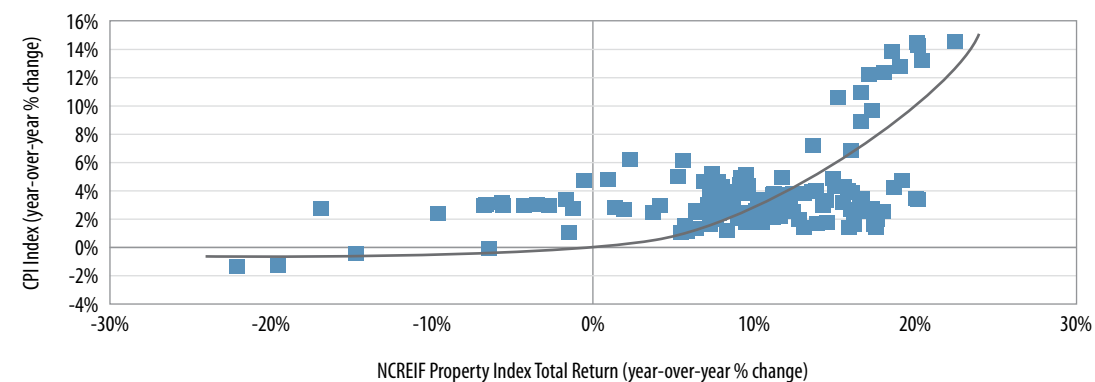
Commercial real estate is valued at a significant discount to replacement cost.

Today, we view REITs as an interesting way to invest in commodities at below-market prices. The majority of the replacement cost for commercial real estate is represented by the sum of the commodities and energy needed to build it. We have watched commodity prices rise sharply over the past two years, but commercial real estate has yet to fully recover from its precipitous drop in the financial crisis. In many sectors, commercial real estate continues to be valued at a significant discount to replacement cost. From a real assets perspective, therein lies the investment opportunity.

Today's lack of new supply in the pipeline makes commercial real estate even more appealing, as the sector's performance over inflationary periods has been especially strong when supply is in check. Often, low levels of supply are a function of relatively low demand and high replacement costs (as is the case today). However, as demand improves, there is a tendency for vacancies to decline and rents to rise, which increases the incentive to build. As this occurs, the gap between valuations and replacement costs tends to close. Over the long term, this dynamic has driven a relatively high correlation between real estate performance and inflation, as illustrated below in Exhibit 14. The chart tracks one-year returns of the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index, a measure of commercial real estate values against year-over-year changes in the CPI, from 1979–2011.

There is limited new supply in the pipeline.

EXHIBIT 14. COMMERCIAL REAL ESTATE TOTAL RETURNS VS. INFLATION
1979 Through 2011



Commercial real estate is highly correlated with inflation in high inflation periods.

Source: ISI Group, NCREIF, U.S. Dept. of Labor (Consumer Price Index): quarterly data 1/1/79–12/31/2011.

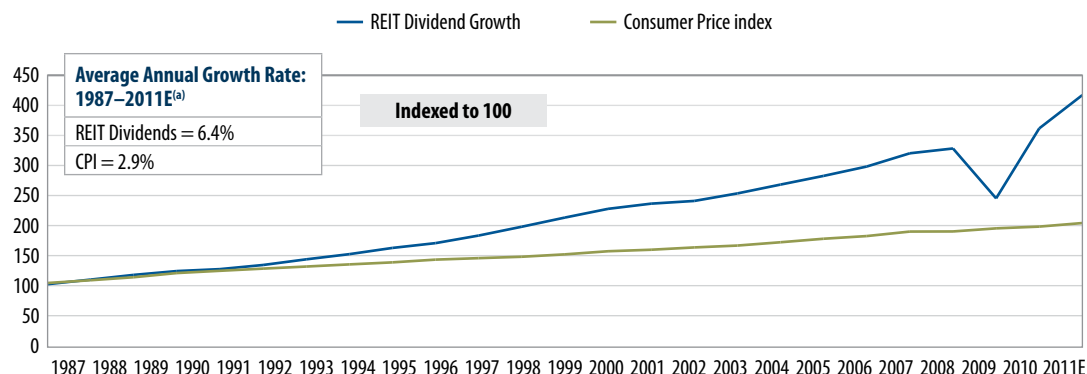
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See index definitions on page 27.

Another favorable characteristic of REITs is the strong long-term record of dividend growth compared with the rate of inflation. Since NAREIT began reporting dividend information in 1987, dividends have grown at a faster pace than inflation. The average annual growth rate of REIT cash dividends has been 6.4% compared with 2.9% for CPI inflation. Exhibit 15 on the following page compares year-over-year CPI growth with dividend growth rates of the FTSE NAREIT all Equity REIT Index.

REIT dividend growth has exceeded the rate of inflation.

EXHIBIT 15. CUMULATIVE REIT DIVIDEND AND CPI GROWTH
December 1987 Through December 2011



As of December 31, 2011.

Source: NAREIT and Cohen & Steers (REIT Dividend Growth) and U.S. Department of Labor (Consumer Price Index).

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(a) The 2011 REIT dividend growth estimate was provided by Cohen & Steers.

Actual annual dividend growth through 2010 was compiled using the methodology of and data provided by NAREIT. Annual growth rates represent a market cap-weighted average on the year-over-year percent change in cash-only income distributions for the constituent companies in the FTSE NAREIT all Equity REIT Index. Accordingly, any stock dividends paid by index constituents are not included. The decrease in cash dividend growth reported in 2009 and subsequent increase in 2010 are attributable to the reduction and restoration of all cash dividends by index constituents.

See index definitions on page 27.

Portfolio Diversifiers: Why They Matter

Portfolio diversifiers can be used to enhance stability.

Our research showed that portfolio diversifiers, including currencies (deposits/notes denominated in Swiss francs, Australian dollars and Canadian dollars), short-term variable rate notes and other fixed income instruments can enhance the stability of a real assets portfolio. Gold, discussed earlier in this paper, also exhibited these characteristics. Highlights of our analysis and rationale for using fixed-income instruments as diversifiers are summarized below.

T-Bills and Short-Term Variable Rate Notes

As a complement to core real asset classes, portfolio diversifiers like T-bills and high-grade variable-rate notes can provide portfolio stability and generate some income, while not subjecting a real assets portfolio to the level of interest-rate risk typically found in periods of rising inflation. In the current low-rate environment, returns from this allocation would not mimic long-term historical results. But these dynamics could change as accommodative policies come to an end and a new interest rate cycle begins.

Fixed Income Denominated in Foreign Currencies

We see diversification potential in the Swiss franc and Australian dollar.

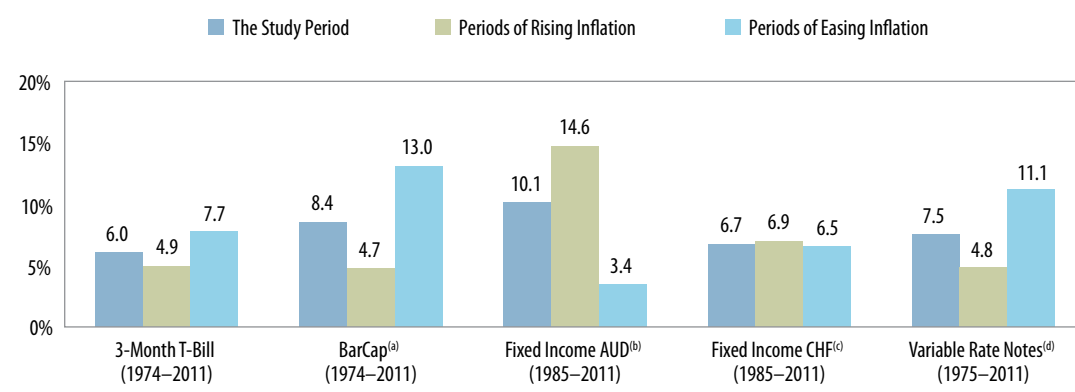
Fixed income securities denominated in foreign currencies also can offer diversification benefits to a real assets investment framework. Two such currencies with a history of adding alpha in periods of rising inflation are the Swiss franc (CHF) and the Australian dollar (AUD).

The Swiss franc is a safe-haven currency that could serve as a U.S.-dollar and risk-diversifier to help mitigate drawdowns. The CHF has exhibited relatively low correlations with risky assets. These results can be illustrated with a historical look at the BofA/Merrill Lynch Swiss

Government 1–3 Year Index, which denominates sovereign securities in Swiss francs. From its 1985 inception, the index returned 6.7%, with moderate volatility and a Sharpe Ratio of 0.54.

Considering Australia’s commodity-driven economy, another potential complement to a real assets strategy is the Australian dollar. The BofA Merrill Lynch Australia Government Index, which denominates sovereign securities in the Australian Dollar, produced a time-weighted annual return of 14.6% during rising inflation periods and a compound average return of 10.1% from the 1985 inception through 2011—with average volatility and a Sharpe Ratio of 0.85. We believe similar complementary characteristics would be found in high-grade notes denominated in Canadian dollars (also the currency of a commodity-driven economy).

EXHIBIT 16. PORTFOLIO DIVERSIFIERS CAN ENHANCE STABILITY
Index Inception Through December 2011



As of December 31, 2011.

Source: Bloomberg, Cohen & Steers.

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(a) Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index.

(b) Fixed income denominated in AUD is represented by the BofA/Merrill Lynch Australian Government, 1–3 Year Index.

(c) Fixed Income denominated in CHF is represented by the BofA/Merrill Lynch Swiss Governments, 1–3 Year Index.

(d) Variable Rate Notes are represented by the Barclays Capital U.S. Government/Credit Float-Adjusted 1–5 Year Index.

Returns over the study period are compound annual returns; annual returns over rising and easing inflation are time-weighted. Periods of rising and easing inflation were based on the percentage change in year-over-year CPI. Prior to 12/1982, regimes were defined by absolute levels of 2%, 4%, and 6%. From 1/1983 to 12/1997 and 1/1998 to 12/2011 regimes were defined by standard deviation from the period mean. Our inflationary regimes were defined as follows: Hyperinflation: Above 6% year over year. High Inflation: Between 4% and 6% year over year. Normal Inflation: Between 2% and 4% year over year. Low Inflation: When the annual year-over-year change of CPI was below 2%. From December 1974–December 2011, there were six periods of rising inflation, seven of easing inflation and one that was relatively flat.

See index definitions on page 27. Our methodology is described in further detail in the Appendix.

Listed Infrastructure

Listed infrastructure is a relatively new asset class, and thus historical data were not available for a long-term performance analysis. Fundamentally, these securities offer the combination of real asset characteristics and the potential to enhance portfolio stability. The underlying assets, which include transportation networks, energy grids and wireless towers, tend to be long-lived, engaged in businesses with high barriers to entry and a monopolistic, often regulated structure. Due to the inelastic demand for the services they provide, infrastructure assets tend to be resistant to economic downturns. At the same time, they tend to generate stable and predictable revenues and cash flow that are often linked to inflation. For these reasons, infrastructure could serve as a potential diversifier within a real assets framework.

Our Perspective on TIPS (Treasury Inflation-Protected Securities)

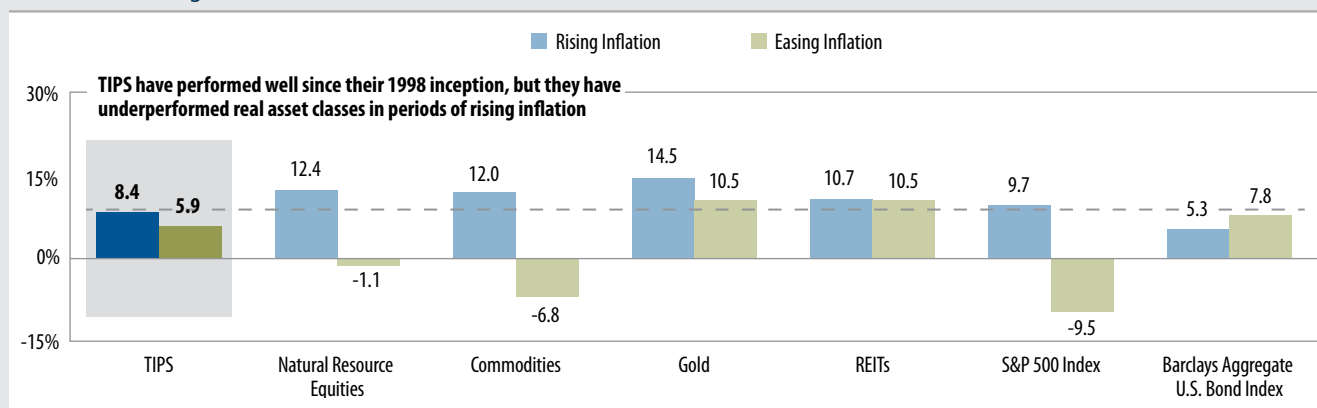
While most real assets strategies include a meaningful allocation to TIPS—typically in the range of 20% to 40%—we consider these instruments to be an opportunistic, rather than a core, allocation of a real assets portfolio. There are several reasons.

- TIPS may be negatively impacted by rising real interest rates, which may be needed to help finance the burgeoning national debt.
- Given the effects of quantitative easing and today's low-yield environment, the probabilities do not seem to favor bonds, on a secular basis. TIPS are no exception (note that the real yield of 10-year TIPS dipped below 0% during 2011).

- The principal of TIPS is adjusted periodically by an amount indexed to CPI inflation. As articulated in the earlier discussion on inflation, we do not believe an adjustment derived from CPI adequately protects against the erosion of purchasing power.

In summary, TIPS have generally performed well since the inception of the U.S. market, but they have underperformed core real assets in periods of rising inflation. They also may lose their luster if the bull market for bonds, in place since their 1997 introduction, comes to an end. While TIPS could provide some portfolio stability, we would rather focus on core real assets for inflation protection and seek portfolio diversification from other sources.

EXHIBIT D. PERFORMANCE OF TIPS VS. OTHER ASSET CLASSES IN PERIODS OF RISING AND EASING INFLATION
March 1998 Through December 2011



As of December 31, 2011.

Source: Bloomberg, Cohen & Steers.

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(a) TIPS are represented by the Barclays Capital U.S. Government Inflation-Linked All Maturities Index.

(b) Natural Resource Equities are represented by the S&P 500 Energy Index (50%) and S&P Materials Index (50%).

(c) Commodities are represented by the Dow Jones UBS Commodities Index.

(d) REITs are represented by the FTSE NAREIT All Equity REITs Index.

(e) Stocks are represented by the S&P 500 Index.

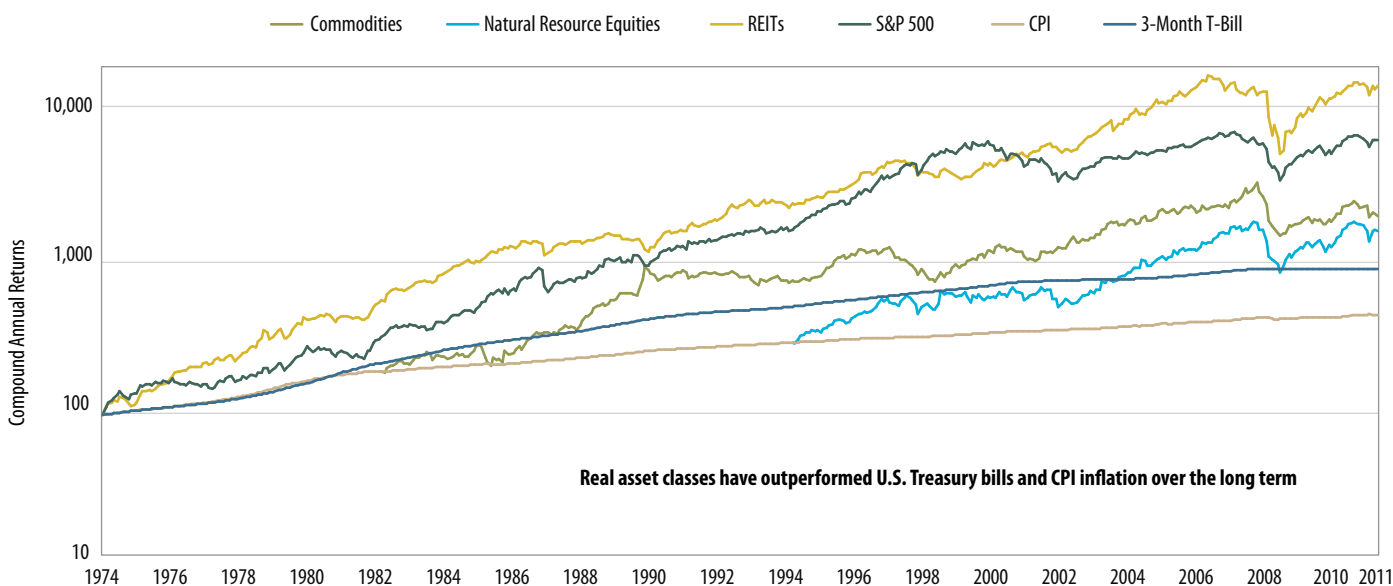
(f) Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index.

See index definitions on page 27. Our methodology is described in further detail in the Appendix.

The Long-Term View: Real Assets vs. Stocks, Bonds and Inflation

As we have noted in this paper, an optimized strategy for inflation protection should be constructed with an objective of long-term total return potential. Exhibit 17 below shows how our selection of real asset classes and portfolio diversifiers would have performed over the long term. Notably, the returns of real asset classes like commodities and REITs have significantly exceeded the rate of inflation and U.S. Treasury bills.

EXHIBIT 17. ASSET CLASS PERFORMANCE INDEXED TO CPI INFLATION
December 1974 Through December 2011



Performance From December 31, 1974 Through December 31, 2011

	Real Assets			Portfolio Diversifiers				Benchmarks	
	Commodities ^(a)	Natural Resource Equities ^(b)	REITs ^(c)	Variable Rate Notes ^(d)	Gold	Fixed Income CHF ^(e)	Fixed Income AUD ^(f)	Stocks ^(g)	Bonds ^(h)
Study Period	1/83–12/11	12/94–12/11	12/74–12/11	12/75–12/11	12/74–12/11	12/85–12/11	12/85–12/11	12/74–12/11	12/74–12/11
Compound Annual Return	8.2%	10.1%	14.0%	7.5%	6.0%	6.7%	10.1%	11.6%	8.4%
Volatility	16.6%	19.1%	17.3%	3.4%	19.4%	12.3%	11.9%	15.5%	5.6%
Sharpe Ratio	0.49	0.53	0.81	2.17	0.31	0.54	0.85	0.75	1.49

As of December 31, 2011.

Source: Bloomberg, Cohen & Steers.

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(a) Commodities are represented by a 50/50 blend of the GSCI Energy and non-Energy components of the GSCI Commodities Index from January 1983 through December 1997. Returns from January 1997 through December 2011 are represented by the Dow Jones UBS Commodities Index.

(c) REITs are represented by the FTSE NAREIT Equity REITs Index.

(d) Variable Rate Notes are represented by the Barclays Capital U.S. Government/Credit Float-Adjusted 1-5 Year Index.

(e) Fixed Income CHF are variable-rate notes denominated in Swiss francs.

(f) Fixed Income AUD are variable-rate notes denominated in Australian dollars.

(g) Stocks are represented by the S&P 500 Index.

(h) Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index.

Returns over the study period are compound annual returns; annual returns over rising and easing inflation are time-weighted. Periods of rising and easing inflation were based on the percentage change in year-over-year CPI. Prior to 12/1982, regimes were defined by absolute levels of 2%, 4%, and 6%. From 1/1983 to 12/1997 and 1/1998 to 12/2011 regimes were defined by standard deviation from the period mean. Our inflationary regimes were defined as follows: Hyperinflation: Above 6% year over year. High Inflation: Between 4% and 6% year over year. Normal Inflation: Between 2% and 4% year over year. Low Inflation: When the annual year-over-year change of CPI was below 2%. From December 1974–December 2011, there were six periods of rising inflation, seven of easing inflation and one that was relatively flat.

See index definitions on page 27. Our methodology is described in further detail in the Appendix.

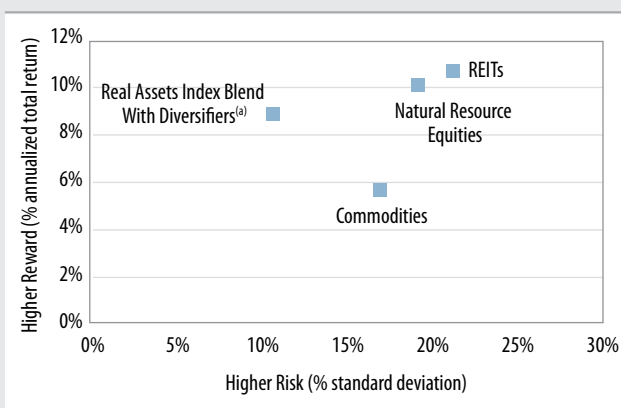
Our Closing Perspective: Three Key Research Findings

Throughout this whitepaper, we have illustrated the potential benefits of a real assets allocation, based on historical index data for core real asset categories and portfolio diversifiers. To summarize our research over the 1994–2011 study period, the Real Assets Index Blend^(a) 1) delivered a more favorable risk/return profile than individual asset classes, 2) outperformed stocks and bonds in periods of rising inflation and 3) demonstrated the ability to outperform stocks and bonds in periods of slow economic growth. **Note that these examples are for illustrative purposes and do not reflect the performance of any fund or other account managed by Cohen & Steers. See the footnotes on page 23 for details on how the returns were calculated.**

1. The Real Assets Index Blend^(a) delivered more attractive risk-adjusted returns than individual real asset categories.

Commodities, natural resource equities and REITs all produced attractive returns in our 1994–2011 study period, but not without high volatility. The Real Assets Index Blend generated most of the return, with significantly lower volatility, and therefore a much higher Sharpe Ratio.

EXHIBIT E. THE BENEFITS OF REAL ASSETS DIVERSIFICATION 1994–2011

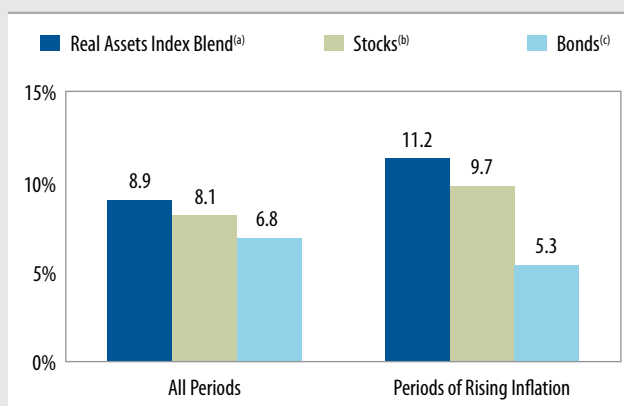


	Commodities	REITs	Natural Resource Equities	Real Assets Index Blend ^(a) (With Diversifiers)
Compound Annual Return	5.7%	10.7%	10.1%	8.9%
Standard Deviation ^(g)	16.9%	21.2%	19.1%	10.6%
Sharpe Ratio ^(h)	0.34	0.50	0.53	0.85

2. A real assets index blend^(a) outperformed stocks^(b) and bonds^(c) in periods of rising inflation.

Consistent with our research thesis, returns from the Real Assets Index Blend^(a) were attractive relative to stocks^(b) and bonds^(c) in periods of rising inflation. Over the 1994 through 2011 study period, CPI inflation averaged 2.4%.

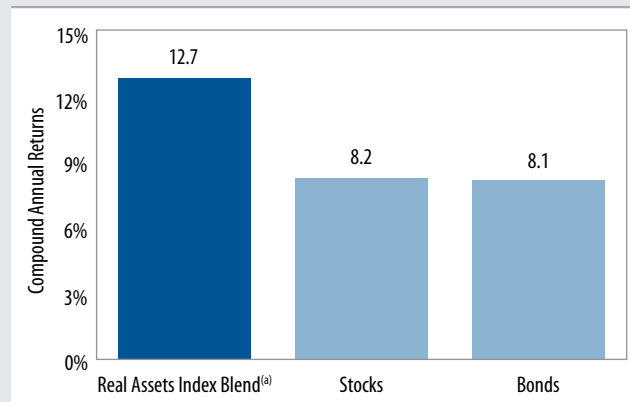
EXHIBIT F. THE REAL ASSETS INDEX BLEND VS. STOCKS AND BONDS 1994–2011



3. The Real Assets Index Blend^(a) outperformed stocks and bonds in a “no-to-slow” growth economy.

Real assets have long been recognized for their returns in periods of strong economic growth; however, we do not see these conditions as a prerequisite for performance. In periods of slow economic growth (0% to 3% GDP growth) over our 1994–2011 study, the Real Assets Index Blend^(a) had an average annual return of 12.7%, significantly higher than for stocks^(b) and bonds^(c).

EXHIBIT G. THE REAL ASSETS INDEX BLEND VS. STOCKS AND BONDS
1994–2011



The above examples all point to the potential benefits of investing in a diversified blend of real asset categories, allocated 20% each to commodities, natural resource equities, REITs, gold and variable rate notes. However, actual weightings within a real asset framework could be higher or lower, depending on factors like industry fundamentals, the macro outlook and overall portfolio characteristics at any given point in time.

In our view, approximately 80% of an inflation protection portfolio should comprise securities backed by tangible real assets like commodities, natural resource equities and REITs. The remainder would be allocated to portfolio diversifiers like gold and variable rate notes for added stability. We would prescribe higher weightings to commodities and REITs based on their relatively low correlations with one another and attractive return potential across different types of inflation regimes; weightings of more volatile sectors like gold and natural resource equities would generally be lower. Based on this rationale, sample allocations for each category would fall into the ranges shown below.

Commodities	REITs	Natural Resource Equities	Variable Rate Notes	Gold
25–35%	25–35%	15–25%	5–20%	0–15%

Footnotes for pages 20–21: Our Closing Perspective

As of December 31, 2011.

Source: Bloomberg and Cohen & Steers.

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(a) The Real Assets Index Blend consists of equal allocations of 20% each to commodities, REITs, natural resource equities, gold and variable rate notes. Commodities are represented by a 50/50 blend of the GSCI Energy and GSCI Non-Energy Commodities Indexes from December 1994 through December 1997. From December 1997 through December 2011, Commodities are represented by the Dow Jones UBS Commodities Index. REITs are represented by the FTSE NAREIT Equity REIT Total Return Index. Natural Resource Equities are represented by a 50/50 blend of S&P Energy Index and S&P Materials Index. Variable Rate Notes are represented by the Barclays Capital U.S. Government/Credit Float-Adjusted 1-5 year Index.

(b) Stocks are represented by the S&P 500 Index.

(c) Bonds are represented by the Barclays U.S. Aggregate Bond Index.

(d) Standard deviation is a commonly used statistical measure of risk.

(e) 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.

(f) Inflation regimes, representing the standard deviation from the period mean, were defined as follows: Hyperinflation: above 6% year over year; High Inflation: between 4% and 6% year over year; Normal Inflation: between 2% and 4% year over year; Low Inflation: when the annual year-over-year change of CPI was below 2%. From December 2001–December 2011, there were three periods of rising inflation and three of easing inflation.

See index definitions on page 27

Our Closing Perspective: Real Assets and the Traditional Allocation Model

Assessing the Need for Inflation Protection

There is no set way to quantify a recommended level of inflation protection. But we can make several simple observations, relevant to our basic premise on inflation and the construction of an inflation-protection portfolio.

- For individuals, the need for inflation protection rises as income streams from wages diminish and the reliance on investment income grows with the onset of retirement.
- For pension funds, the need for inflation protection rises proportionately with the amount of unfunded liabilities and the degree to which these obligations are indexed to inflation.
- For endowments and foundations, the need for inflation protection grows proportionately with their reliance on the investment portfolio's income to fund payout obligations. This need tends to be somewhat lower for endowments, which are managed with the expectation for future contributions.

Illustrating the Potential Benefits

The past decade was a difficult period for investors who navigated two recessions, two asset bubbles and a financial crisis. With volatility at unprecedented levels, it was also a decade in which asset-class diversification really mattered.

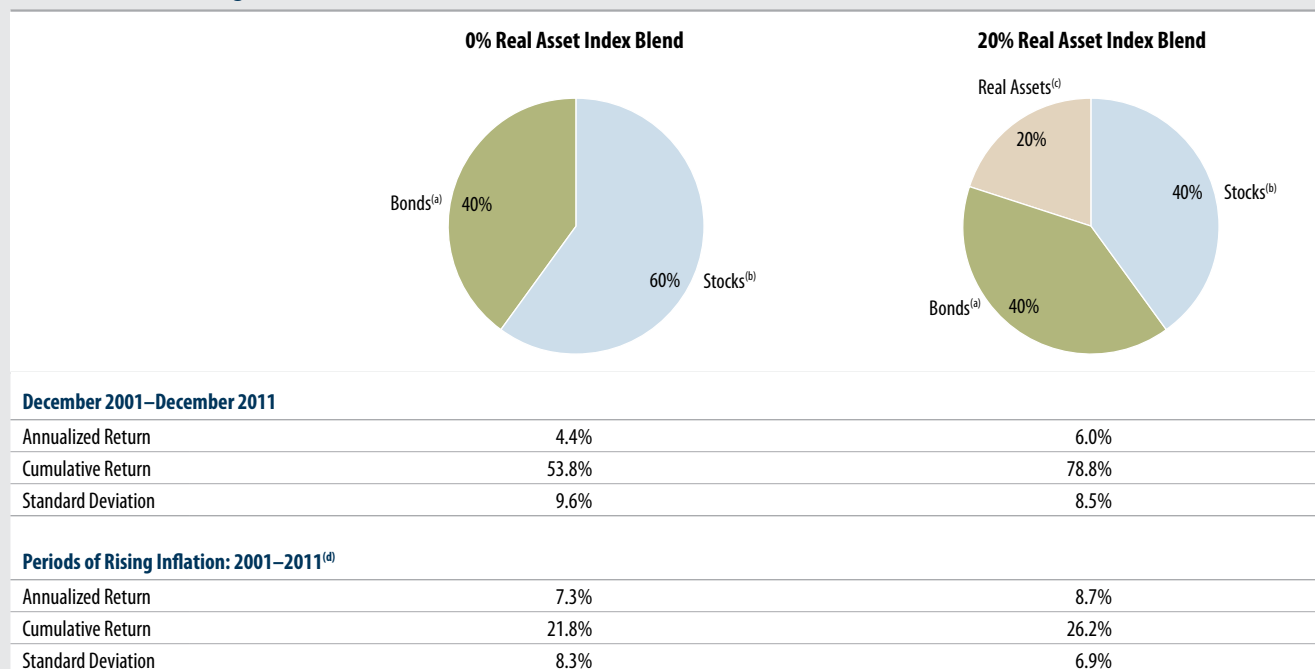
Exhibit 19 on the following page illustrates the potential benefits of an allocation to real asset classes in this period. The charts show that adding an allocation to real assets enhanced the returns of a stock and bond portfolio, while reducing volatility as measured by standard deviation.

- On the left we illustrate the performance of a traditional asset allocation model, divided 60% stocks and 40% bonds.
- On the right we illustrate a portfolio that included a 20% allocation to a diversified blend of real assets class indexes, equally divided among commodities, natural resource equities, gold, REITs and variable rate notes.⁽¹⁾

Overall, adding an allocation to securities backed by real asset classes generated higher returns, with less volatility as measured by standard deviation. Consistent with the findings of our research, the benefits of the real asset allocation were greater during periods of rising inflation.

(1) The hypothetical case study is not intended to represent the performance of a portfolio managed by Cohen & Steers. Diversification does not ensure against market loss.

EXHIBIT 19. PERFORMANCE ASSESSMENT OVER THE STUDY PERIOD
December 2001 Through December 2011



As of December 31, 2011.

Source: Bloomberg, Cohen & Steers.

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Diversification does not ensure a profit or protect against market loss.

(a) Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index. (b) Stocks are represented by the S&P 500 Index. (c) The Real Assets Index Blend is equally divided among commodities, natural resource equities, REITs, gold and variable rate notes. Commodities are represented by the Dow Jones UBS Commodities Index. REITs are represented by the FTSE NAREIT Equity REIT Total Return Index. The allocation to natural resource equities is divided equally between the S&P Energy Index and S&P Materials Index. Variable Rate Notes are represented by the Barclays Capital U.S. Government/Credit Float Adjusted: 1-5 Year Bond Index. (d) Returns are time-weighted over three periods spanning 93 months of rising inflation: 6/02–9/05, 10/06–7/08 and 7/09–12/11.

Returns over the study period are compound annual returns. Inflation regimes, representing the standard deviation from the period mean, were defined as follows: Hyperinflation: above 6% year over year; High Inflation: between 4% and 6% year over year; Normal Inflation: between 2% and 4% year over year; Low Inflation: when the annual year-over-year change of CPI was below 2%. From December 2001–December 2011, there were three periods of rising inflation and three of easing inflation.

See index definitions on page 27. Our methodology is described in further detail in the Appendix.

In closing, even though inflation is somewhat benign in today's environment, we believe it is destined to move higher in response to the long-term effects of monetary stimulus, continued growth in emerging markets and barriers to the production of key natural resources. But given the scope of our research, it is not too soon to prepare for this outcome, with a portfolio systematically allocated to real asset categories. Such a portfolio can provide diversification to existing stock and bond portfolios, while offering rising return potential in periods of true economic inflation.

Appendix

Defining the Components of a Real Asset Class Framework

Commodities:

Commodities are represented by a 50/50 blend of the GSCI Energy and GSCI Non-Energy Commodities Indexes from January 1983 through December 1997. From December 1997 through December 2011, commodities are represented by the Dow Jones UBS Commodities Index.

Gold:

Our analysis of gold was predicated on a dual approach to investing in the commodity—through the direct ownership of gold bars and shares of gold ETFs. Direct ownership addresses issues with respect to shared ownership, government interference, or any imbalance between the paper market and physical market for gold, while ETFs provide a more liquid form of ownership. The analysis in this summary is based on historical prices of the underlying commodity.

REITs:

REIT data were available for the entire Study Period, back to December 1974. REITs generated strong performance relative to stocks and bonds in both rising and easing periods of inflation. This versatile performance potential, combined with generally low correlations to other core real asset classes, points to the complementary diversification benefits of REITs over different inflation regimes.

Natural Resource Equities:

Index data were not available for natural resource equities until the 1994 inception of the S&P Energy and S&P Materials Indexes. However, this paper builds a strong investment case for this real asset component, based on fundamental considerations and performance metrics from December 1994 through December 2011.

Portfolio Diversifiers:

An important secondary objective of our real assets framework is to reduce volatility. We found these characteristics among a number of portfolio diversifiers, including deposits/notes denominated in U.S. dollars, Swiss francs, Australian dollars and Canadian dollars. Index returns showing the potential benefits of portfolio diversifiers are based on the The BofA Merrill Lynch Australia Government Index, the BofA Merrill Lynch Swiss Government Index and the Barclays Capital U.S. Government/Credit Float-Adjusted 1-5 Year Index.

TIPS:

Unlike many other strategies for inflation protection, we believe TIPS should be used as an opportunistic investment, rather than a core allocation in a real assets strategy. The performance of TIPS from 1998 through 2011 is represented by the Barclays Capital U.S. Government Inflation-Linked All Maturities Index.

Our asset class analysis was based on the performance of each group from index inception through December 2011. Data were available back to December 1974 for certain portfolio diversifiers and benchmarks, as well as for REITs and gold. Index data for commodities, fixed income diversifiers in foreign currencies and natural resource equities were analyzed from inception dates January 1983, December 1985 and December 1994, respectively.

The chart below provides a cross reference of available data from the inception of each asset class through December 2011, as well as from December 1994 through December 2011, a period for which data were available for all of the asset classes.

ASSET CLASS RETURN CROSS REFERENCE

Category		Study Period (Inception - 2011 and 1994-2011)	Compound Annual Return	Time-Weighted Return— Rising Inflation	Time-Weighted Return— Easing Inflation	Standard Deviation	Sharpe Ratio ^(b)
Real Asset Classes	Real Assets Index Blend ^(a)	December 1994–December 2011	8.9%	11.2%	4.3%	10.6%	0.85
	REITs	December 1974–December 2011	14.0%	9.5%	20.9%	17.3%	0.81
		December 1994–December 2011	10.7%	10.7%	11.6%	21.2%	0.50
	Gold	December 1974–December 2011	6.0%	17.8%	-2.1%	19.4%	0.31
		December 1994–December 2011	8.6%	14.5%	4.8%	16.2%	0.53
	Commodities	January 1983–December 2011	8.2%	18.9%	-1.8%	16.6%	0.49
		December 1994–December 2011	5.7%	12.0%	-8.0%	16.9%	0.34
Natural Resource Equities	December 1994–December 2011	10.1%	12.4%	3.8%	19.1%	0.53	
Portfolio Diversifiers	Variable Rate Notes	December 1975–December 2011	7.5%	4.8%	11.1%	3.4%	2.17
		December 1994–December 2011	5.6%	4.2%	6.9%	2.2%	2.54
	Variable Rate Notes in Australian Dollars	December 1985–December 2011	10.1%	14.6%	3.4%	11.9%	0.85
		December 1994–December 2011	8.4%	12.9%	-0.1%	12.1%	0.69
	Variable Rate Notes in Swiss Francs	December 1985–December 2011	6.7%	6.9%	2.5%	12.3%	0.54
		December 1994–December 2011	4.7%	5.8%	3.4%	11.7%	0.40
Benchmarks	U.S. Stocks ^(c)	December 1974–December 2011	11.6%	8.5%	15.2%	15.5%	0.75
		December 1994–December 2011	8.1%	9.7%	1.5%	16.0%	0.51
	U.S. Bonds ^(d)	December 1974–December 2011	8.4%	4.7%	13.0%	5.6%	1.49
		December 1994–December 2011	6.8%	5.3%	8.1%	3.7%	1.86

As of December 31, 2011.

Source: Bloomberg, Cohen & Steers.

Past performance is no guarantee of future results. Investors cannot invest directly in an index. 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.

(a) The Real Assets Index Blend consists of equal allocations of 20% each to commodities, REITs, natural resource equities, gold and variable rate notes. Commodities are represented by a 50/50 blend of the GSCI Energy and GSCI Non-Energy Commodities Indexes from December 1994 through December 1997. From December 1997 through December 2011, Commodities are represented by the Dow Jones UBS Commodities Index. REITs are represented by the FTSE NAREIT Equity REIT Total Return Index. Natural Resource Equities are represented by a 50/50 blend of S&P Energy Index and S&P Materials Index. Variable Rate Notes are represented by the Barclays Capital U.S. Government/Credit Float-Adjusted 1-5 year Index.

(b) 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. For this analysis, a risk-free rate of 0% was used.

(c) U.S. stocks are represented by the S&P 500 Index.

(d) U.S. bonds are represented by the Barclays U.S. Aggregate Bond Index.

A risk-free rate of zero was used in this whitepaper.

See index definitions on page 27 and the discussion of asset class methodology on page 24.

The views and opinions in the preceding commentary are as of the date of publication and are subject to change. 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. Past performance does not guarantee 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. There is no guarantee that a market forecast made in this commentary will be realized.

Understanding the Risks of Investing

A real assets investment 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.

Risks of investing 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. The risks of investing in REITs are similar to those associated with direct investments in real estate securities. Foreign securities involve special risks, including currency fluctuations, lower liquidity, political and economic uncertainties, and differences in accounting standards. Some international securities may represent small- and medium-sized companies, which may be more susceptible to price volatility and less liquidity than larger companies.

Risks of investing in commodities: Because the strategy will have a significant portion of its assets concentrated in commodity-linked securities, developments affecting commodities will have a disproportionate impact on the strategy. The strategy's investment in commodity-linked derivative instruments may subject it 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.

Risks of investing in natural resource equities: The strategy's investments in securities of natural resource companies involve risks. 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.

Risks of investing in gold and related securities: Investments related to gold are considered speculative and are affected by a variety of worldwide economic, financial and political factors. The price of gold may fluctuate sharply over short periods of time due to changes in inflation or expectations regarding inflation in various countries, the availability of supplies of gold, changes in industrial and commercial demand, gold sales by governments, central banks or international agencies, investment speculation, monetary and other economic policies of various governments and government restrictions on private ownership of gold.

Risks of investing in fixed income securities: Fixed income securities generally present two types of risk—interest rate risk, which is the risk that bond prices will decline because of rising interest rates, and credit risk, which is the chance that a bond issuer will fail to timely pay interest and principal or that a bond's price declines because of negative perceptions of an issuer's ability to pay interest and principal.

Risks of foreign currencies: The strategy is subject to foreign currency risk, which means that the strategy's performance could decline as a result of changes in the exchange rates between foreign currencies and the U.S. dollar. Certain foreign countries may impose restrictions on the ability of issuers of foreign securities to make payment of principal, dividends and interest to investors located outside the country, due to blockage of foreign currency exchanges or otherwise.

Index Definitions

Barclays Capital U.S. Aggregate Bond Index (formerly the Lehman Brothers U.S. Aggregate Bond Index) is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Barclays Capital U.S. Government/Credit Float-Adjusted 1-5 Year Index is the non-securitized portion of the Barclays Capital U.S. Aggregate Bond Index, including U.S. Treasuries, government-related issues and corporate bonds with maturities of 1 to 5 years.

The BofA Merrill Lynch Australia Government Index tracks the performance of AUD denominated sovereign debt publicly issued by the Australian government in its domestic market. Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of AUD 1 billion.

The BofA Merrill Lynch Swiss Government Index tracks the performance of CHF denominated sovereign debt publicly issued by the Swiss government in its domestic market. Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of CHF 500 million.

The Dow Jones UBS Commodities 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 Metal Exchange.

The FTSE NAREIT All Equity REITs Index is an unmanaged, market-capitalization-weighted index of all publicly traded REITs that invest predominantly in the equity ownership of real estate.

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

The MSCI EM (Emerging Markets) Europe, Middle East and Africa Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East & Africa. The MSCI EM EMEA Index consists of the following eight emerging market country indices: Czech Republic, Hungary, Poland, Russia, Turkey, Egypt, Morocco, and South Africa.

The NCREIF Property Index (NPI) provides returns for institutional-grade real estate held in a fiduciary environment in the United States.

The S&P Energy Index is one of 10 S&P Select Industry Indices designed to measure the performance of narrow Global Industry Classification Standard (GICS®) sub-industries, the most detailed level of industry definition.

The S&P Materials Index is one of 10 S&P Select Industry Indices designed to measure the performance of narrow Global Industry Classification Standard (GICS®) sub-industries, the most detailed level of industry definition.

The S&P GSCI Energy and Non-Energy Indexes represent the energy and non-energy components, respectively, of the S&P GSCI Commodities Index (a benchmark for investment in the commodity markets and as a measure of commodity market performance over time).

The S&P GSCI Energy Index is a sub-industry group of the S&P GSCI Commodities Index.

The S&P 500 Index is an unmanaged index of 500 large-capitalization, publicly traded stocks representing a variety of industries.

Commodities are represented by a 50/50 blend of the GSCI Energy and GSCI Non-Energy Commodities Indexes from January 1983 through December 1997. From December 1997 through December 2011, Commodities are represented by the Dow Jones UBS Commodities Index.

The performance of TIPS from 1998 through 2011 is represented by the Barclays Capital U.S. Government Inflation-Linked All Maturities Index, which includes publicly issued, U.S. Treasury inflation-protected securities with at least one year remaining to maturity, are rated investment grade and have \$250 million or more in remaining face value.

Correlation is a statistical measure of how two securities move in relation to each other.

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.

Standard Deviation is a commonly used statistical measure of volatility.

About Cohen & Steers

Cohen & Steers pioneered REIT investing more than 25 years ago. Throughout our longstanding leadership, we have fostered a culture of knowledge, innovation and advocacy on behalf of our clients. Today we are a global investment manager focused on specialty asset classes and committed to delivering superior results. We serve a broad range of institutional and individual investors through our offices in New York, London, Brussels, Hong Kong, Tokyo and Seattle.

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