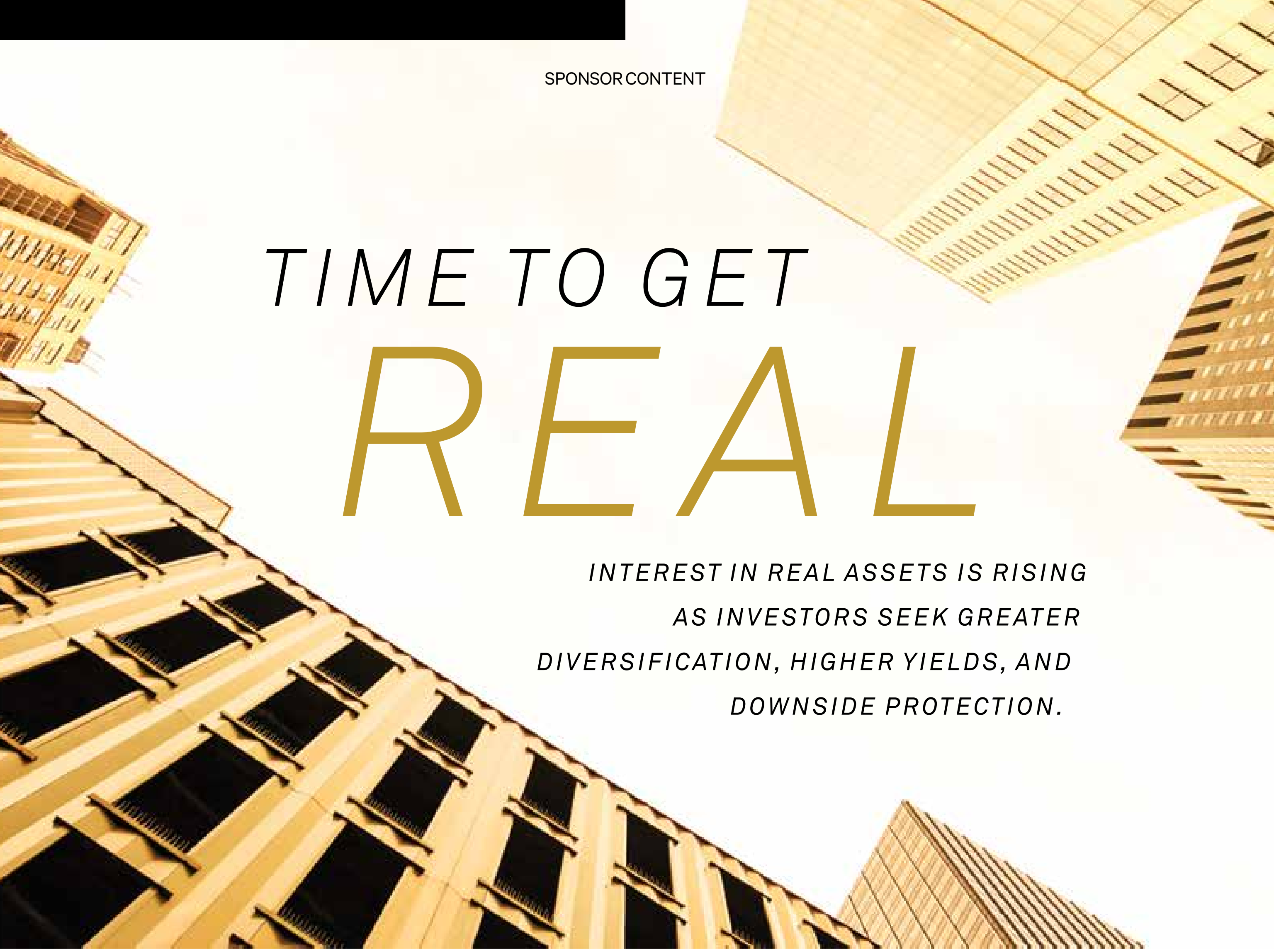

TIME TO GET REAL

INTEREST IN REAL ASSETS IS RISING AS INVESTORS SEEK GREATER DIVERSIFICATION, HIGHER YIELDS, AND DOWNSIDE PROTECTION.

Interest in real assets has been steadily increasing over the past two years as investors have been seeking greater diversification away from equities and bonds, higher yield, and, looking out over the medium term, potential protection from inflation. “There’s a lot going on in our space,” says Steve Dunn, head of global distribution at Cohen & Steers. “Last year, search activity was up over 20 percent across the real asset spectrum, with strong interest in real estate, followed by multi-strategy and listed infrastructure.” Dunn expects this attraction to continue.

Institutional interest in real assets has been strong all around, with publicly listed assets drawing more and more attention. Traditionally, investments in real assets have largely been through private equity funds and direct investments in real estate and infrastructure. “Private allocations continue, but now we’re seeing more allocations to listed strategies that complement private investments — especially from public funds that need the liquidity to meet liabilities,” says Dunn. In addition, over the last two years, U.S. and global real estate strategies have posted solid returns, as has multi-strategy.

It’s a good time to invest. “Real assets have never been cheaper relative to financial assets,” says Whitney George, chairman of Sprott USA. That’s due in part to challenges in the commodities, energy, and metals and mining sectors over the past few years, but it’s also a function of the elevated levels of equities and fixed-income assets.

Recognizing that property is a good place to park capital and protect it from inflation over time, many institutions are looking at real asset strategies that offer property-like characteristics, like infrastructure and renewable energy. “We see real asset allocations increasing in a lot of portfolios,” says Ryan Dobratz, real estate portfolio manager at Third Avenue Management.

Since the U.S. Presidential election, bond yields and inflation expectations have picked up, and many yield-centric, publicly traded companies have seen performance lag. By contrast, performance of assets in the property space that are more economically sensitive has strengthened. Overall institutional interest in REITs, which have been used as better-yielding proxies for bonds, has actually seen net outflows since November. “It seems as if institutional capital since the election has rotated out of yield proxies, like REITs, into other opportunities, whether they be general equities or other real asset opportunities,” says Dobratz.

STATE STREET GLOBAL ADVISORS
SPDR®
GLDILOCKS
AND THE BEAR MARKETS
GLD
Once upon a time, an investor sought to find an investment that balanced her portfolio beautifully. Gold has had positive returns in 4 of the last 5 equity bear markets. Find out if the SPDR Gold Trust ETF is just right for you at spdrs.com/gold
Source: Bloomberg Finance, L.P., as of 7/31/17. Calculated using LBMA Gold Price PM (USD/oz) Index monthly returns. Last five bear markets identified as the following dates: 1/1973–9/1974, 11/1980–8/1982, 8/1987–11/1987, 3/2000–10/2002, 10/2007–3/2009; where gold returned 97.9%, -55.4%, 6.46%, 11.46% and 29.71% respectively. Past performance is not a guarantee of future results.
Investing in commodities entails significant risk and is not appropriate for all investors.
Important Information Relating to SPDR Gold Trust ("GLD"): The SPDR Gold Trust ("GLD®") has filed a registration statement (including a prospectus) with the Securities and Exchange Commission ("SEC") for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents GLD has filed with the SEC for more complete information about GLD and this offering.
Please see the GLD prospectus for a detailed discussion of the risks of investing in GLD shares. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov or by visiting www.spdrgoldshares.com. Alternatively, the Trust or any authorized participant will arrange to send you the prospectus if you request it by calling 866-320-4053.
Standard & Poor's®, S&P® and SPDR® are registered trademarks of Standard & Poor's Financial Services LLC (S&P); Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC (Dow Jones); and these trademarks have been licensed for use by S&P Dow Jones Indices LLC (SPDJI) and sublicensed for certain purposes by State Street Corporation (SSC). SSC's financial products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates and third party licensors; they make no representation regarding the advisability of investing in GLD nor do they have any liability in relation thereto.
For more information, please contact the Marketing Agent for GLD: State Street Global Advisors Funds Distributors, LLC, One Lincoln Street, Boston, MA 02111; 866-320-4053
IBG-24729
Not FDIC Insured • No Bank Guarantee • May Lose Value

Rising interest rates and growing inflation typically signal a strong economy with positive fundamentals overall, which could ultimately benefit real estate, infrastructure, and other hard asset categories. Rising rates and inflation could, however, cause a short-term pause in performance, and investors are looking more closely at defensive strategies. Listed real assets can provide downside protection and liquidity. “The demand is anticipatory,” says Dunn. “If you wait, it’s too late.” Many are willing to give up short-term returns because they want to bolster their defenses within their portfolios.

OPPORTUNITIES

For now, the best real estate opportunities fall under one of three types, says Dobratz. The first is in companies with pricing power, meaning that they’re in strong locations with shorter lease terms. This way, cash flows can be increased over time, offsetting higher cap rates. Second, when investing in real estate companies (as opposed to individual properties), investors should focus on those that can add value through development and redevelopment. U.S. companies with urban regeneration projects could be well positioned, as well as those in high-end retail. Third, look beyond REITs and other publicly traded real estate assets to find real estate operating companies and U.S. residential-related businesses, like home builders, brokerages, and others that own timber and agricultural land that should continue to do well as the U.S. residential market continues to rebound.

GOLD HAS HELD ITS OWN IN TERMS OF PERFORMANCE AGAINST STOCKS, BONDS, HEDGE FUNDS, VENTURE CAPITAL FUNDS, AND OTHER ALTERNATIVES.

Looking out over the next five years, the U.S. residential market stands at the forefront. “We went through Great Depression–like conditions in 2008, ’09, and ’10,” says Dobratz. Over the past 50 years, there were 1.65 million homes built per year, on average, dropping to fewer than 600,000 during the depths of the crisis. In the recovery, it’s reached more than 1.2 million, and it’s growing.

“We’re still well below where we need to be on a long-term basis given population growth, obsolescence, and other fundamental factors,” Dobratz says, and companies involved in home building will continue to benefit. Retail presents selective opportunities. “We’re seeing big secular shifts in retail now,” he continues.

The rise of E-commerce is making lower-quality, tertiary shopping centers less relevant and challenging department stores. As a result, the higher-quality properties are taking market share, with many repurposing department store square footage for entertainment and dining. They’re also adding office space and apartments. Third Avenue Management is bullish on London as well. “There will be more certainty around the Brexit process, if it does ultimately materialize, and we believe London will remain one of the best property markets on the planet,” says Dobratz.

Infrastructure and logistics have become greater areas of interest as well. “It’s coming — we believe infrastructure is a good way to capitalize on anticipated government spending,” says Dunn. Investments in owners and operators of utilities, toll roads, airports, pipelines, and others that have high barriers to entry are expected to have attractive investment characteristics. Farmland is another good fixed income asset that is non-correlated to most financial assets — “it has appreciated about 5 percent per year over the past 50 years,” says George.

Despite gold having cumulatively performed better than the S&P 500 since 2000, “precious metals are not of interest to most U.S. institutional investors,” says George, explaining that they prefer TIPS and other financial assets to protect against inflation. Paradoxically, gold has held its own in terms of performance against stocks, bonds, hedge funds, venture capital funds, and other alternatives. “And it has done so in the least correlated way,” he says. “Gold is a very useful part of an overall investment portfolio, but it has been more popular in Europe and Asia than in the U.S.” Gold could become more popular with technology innovations that make it easier to transact — Bitcoin is an example. “The GLD ETF has made gold a more accessible investment, but some combination of Blockchain, modern innovation, and changes in economic fundamentals, like growing government deficits, is likely to rekindle excitement about gold going forward,” says George.

Although institutions are placing a greater emphasis on real assets lately, most remain under-allocated to both private and liquid exposures. Allocations tend to range from 5–25 percent, with real estate dominating, followed by infrastructure and energy. “Valuations are important, and institutions are looking for the right entry point, particularly in real estate,” says Dunn. Some key markets and categories appear to be expensive, which typically causes investments to be made in stages. “If caught in a correction, the time it takes to make it up can be significant,” he says.

Many large institutions and consultants have boosted their staffs devoted to covering real assets, signaling that they are looking to increase allocations. “Those investors who are careful portfolio rebalancers could find that their commodity and hard asset exposures have fallen behind, and they may make some adjustments,” says George. When commodities cycle back in, and other areas start to underperform, the broader audience will take notice.

— Howard Moore