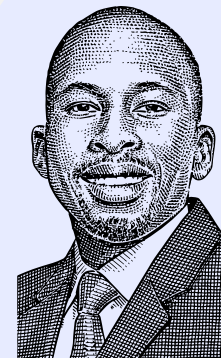


Pragmatic Perspectives

The Real Assets Play By Mamadou-Abou Sarr



Why investors are increasingly turning to real assets.

The recent years have seen a significant surge in demand for real assets. The growing global population, rising incomes – particularly in developing regions – and the need to upgrade ageing infrastructure is propelling the demand for real assets, from infrastructure to essential resources like energy, food products, metals, and water. These circumstances present compelling opportunities for investors, potentially driving related stock prices upward across infrastructure and natural resources sectors.

However, in that dynamic environment, discerning investors recognize that certain segments of the supply chain hold potential for greater returns than others. They also understand that there is a need to mitigate headline risks, notably in energy-related industries.

In recent years, infrastructure investing has emerged as a cornerstone of institutional investors' multi-asset portfolios, offering a spectrum of attractive attributes. These include historically robust risk-adjusted returns, diversification benefits stemming from low correlations with traditional asset classes, income generation capabilities, and resilience against inflationary pressures. However, while those investments have traditionally only been accessible to institutional investors through private equity channels, the emergence of listed infrastructure presents a complementary avenue with distinct advantages; chief of those are liquidity, reduced costs, and broad diversification across geographies and sectors.

Listed infrastructure investments are those in companies that tend to own long-lived assets that provide essential services to society, such as utilities, energy transportation networks, communications, and transportation infrastructure. They are known to stand out for their potential to deliver lower volatility, appealing yields, and steadfastness, especially amidst periods of escalating inflation.

In the same vein, investors can access natural resources via a diversified exposure to companies involved in the upstream components of the natural resources supply chain.

A deeper dive into the benefits of listed real assets investing

Investing in listed real assets, such as natural resources and infrastructure companies, offers several key benefits:

- **Diversification** – Listed real assets offer exposure to tangible assets such as social infrastructure, economic infrastructure, and natural resources. These assets often have a low correlation with traditional equities and bonds, thereby enhancing portfolio diversification and reducing overall portfolio risk.
- **Income Generation** – Many listed real assets generate steady income streams through rental payments, toll collections, or dividends from operating cashflows. This can provide investors with a steady source of income, making them particularly attractive to income-oriented investors, such as retirees.
- **Liquidity** – Unlike direct ownership of physical real estate or infrastructure assets, which can be illiquid and require significant capital commitments, listed real assets are traded on public stock exchanges.
- **Potential for Capital Appreciation** – In addition to income generation, listed real assets have the potential for capital appreciation over the long term.
- **Inflation Hedge** – Real assets, such as real estate and infrastructure, have historically demonstrated a positive correlation with inflation. As prices rise, the value of these assets also tends to increase, providing investors a potential hedge against inflationary pressures.
- **Universal accessibility** – Investing in listed real assets allows investors of all sizes to access a diverse range of real estate and infrastructure opportunities that may otherwise be inaccessible or prohibitively expensive. This access democratization enables retail investors to participate in these asset classes alongside institutional investors.

Overall, investing in listed real assets can offer an appealing combination of income, diversification, liquidity, and potential for long-term growth, making them an attractive component of a well-diversified investment portfolio.



V-Square Sustainability Global Equity Infrastructure

V-Square developed a solution in the form of an index in partnership with Morningstar, which is designed to provide a diversified exposure to social and economic infrastructure-related equities, while mitigating sustainability risk and skewing towards selecting higher-quality firms.

- **About the strategy** – The global economy relies on a vast network of infrastructure, including roads and bridges, freight rail, ports, electrical grids, and internet provision. Investments to replace or upgrade obsolete infrastructure creates a tremendous growth opportunity.
- **How this works** –The V-Square Sustainability Global Equity Infrastructure strategy offers a global and differentiated exposure to a comprehensive spectrum of social and economic infrastructure sectors, encompassing energy, utilities, transportation infrastructure, communication, and telecom assets. Concurrently, the strategy considers a company's robust fundamentals and its effectiveness in mitigating headline risks.
- **Why this is needed** – We believe that the growth in social and economic infrastructure cannot be achieved without the consideration of negative externalities and sustainability. Designing this index was important because no such solutions were available in the market to answer investor demand.
- **What about performance?** – The returns favorably compare to other infrastructure-focused indexes. The index (Bloomberg Ticker VSSGEINU Index) was officially launched in September 2023.

V-Square Global Upstream Natural Resources

Like for the infrastructure strategy, V-Square also developed a solution in the form of an index in partnership with Morningstar, which is designed to provide diversified exposure to the highest quality, highest yielding stocks of companies involved in the upstream components of the natural resources supply chain, while mitigating sustainability-related risks.

- **About the strategy** – Commodity exposure boasts clear benefits within a portfolio context, including the potential to function as an inflation hedge, since upstream natural resources companies typically benefit from rising commodity prices. Yet, futures and physical ownership pose challenges. The V-Square Global Upstream Natural Resources Index obviates these problems by targeting the stocks of upstream natural resources companies.
- **How this works** –The V-Square Global Upstream Natural Resources strategy's additional focus on quality and yield factors also means that selected stocks in the portfolio are companies with strong profitability, robust balance sheets, and higher shareholder distributions relative to their price.
- **Why this is needed** – We believe that commodity exposure remains an important part of investors asset allocations. However, potential headline risks and governance shortfalls are not always fully assessed. Designing this index was important because no solutions were available in the market prioritizing governance and focusing on quality and yield.
- **What about performance?** – Over the years, simulated performance of the index has shown outperformance relatively to the parent index, the Morningstar Global Upstream Natural Resources index. The index (Bloomberg Ticker VSGUNRN Index) was officially launched in December 2023.

An innovation to play more confidently in the real asset investing space

In conclusion, the surge in demand for real assets, driven by dynamics such as population growth, rising incomes, and infrastructure needs, presents new untapped opportunities for investors. Listed real assets offer an alternative and complementary investing option to investors looking to execute real assets play, with intrinsic singular advantages including enhanced liquidity, broader diversification, and potential for capital appreciation.

At V-Square, we have introduced two novel strategies with a differentiated take on listed real assets, bridging the gap between the opportunity and a need for also consider the various related risks. As a result, we launched two rules-based indexes that make possible to invest in them:

- [the V-Square Sustainability Global Equity Infrastructure Index, and](#)
- [the V-Square Global Upstream Natural Resources Index.](#)

As intended, these two indexes provide diversified exposure to high-quality or higher-yielding stocks, while mitigating sustainability risks, addressing governance concerns.

The invaluable combination of characteristics such as income, diversification, and long-term growth potential, makes listed real assets an attractive addition to investment portfolios. The innovation primarily stems from allowing investors to efficiently access these opportunities while also minimizing risks in the ever-evolving landscape of real asset investing.

Modern times and new paradigm call for innovation

At V-Square, we understand the need for investment solutions that help investors gain risk-managed exposure to listed real assets. Most existing products are either high-fee actively managed funds or passively managed products that are merely giving broad exposure to the sector but fail to address inherent risks, notably governance and other headline risks.

There is also an opportunity to supplement existing broad-based indexes by embedding factors such as quality and yield into the stock selection process. We

have identified and implemented rules-based approaches that address these risks and related opportunities in a way that has proven beneficial to performance over time. This resulted in the creation of two investment solutions, one focusing on infrastructure and the other one on upstream natural resources.

Consistent with our approach to innovation, we methodically surveyed the space and conducted investment research to create two first-to-market listed real assets strategies.

Pragmatic Perspectives

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