a.s.r. real assets investment partners

The value of integrated portfolio management for real assets

With infrastructure, real estate, and agriculture and forestry, investors can respond to the same themes and megatrends that are the driving forces behind futureproof investment portfolios. Take urbanisation and digitalisation for example, which lead to an increasing demand for social infrastructure and data centres respectively. As investment propositions, these two examples have the characteristics of both real estate and infrastructure, with an increasing overlap in the field of risk return profiles and structures. That is why a.s.r. real assets investment partners classify these asset classes as one category: real assets. From a portfolio management point-of-view, it is essential to have an integrated approach to guarantee coherence within the portfolio, protect against unnecessary risks and ensure that investment propositions do not fall between the cracks at the intersections of the various real asset classes.

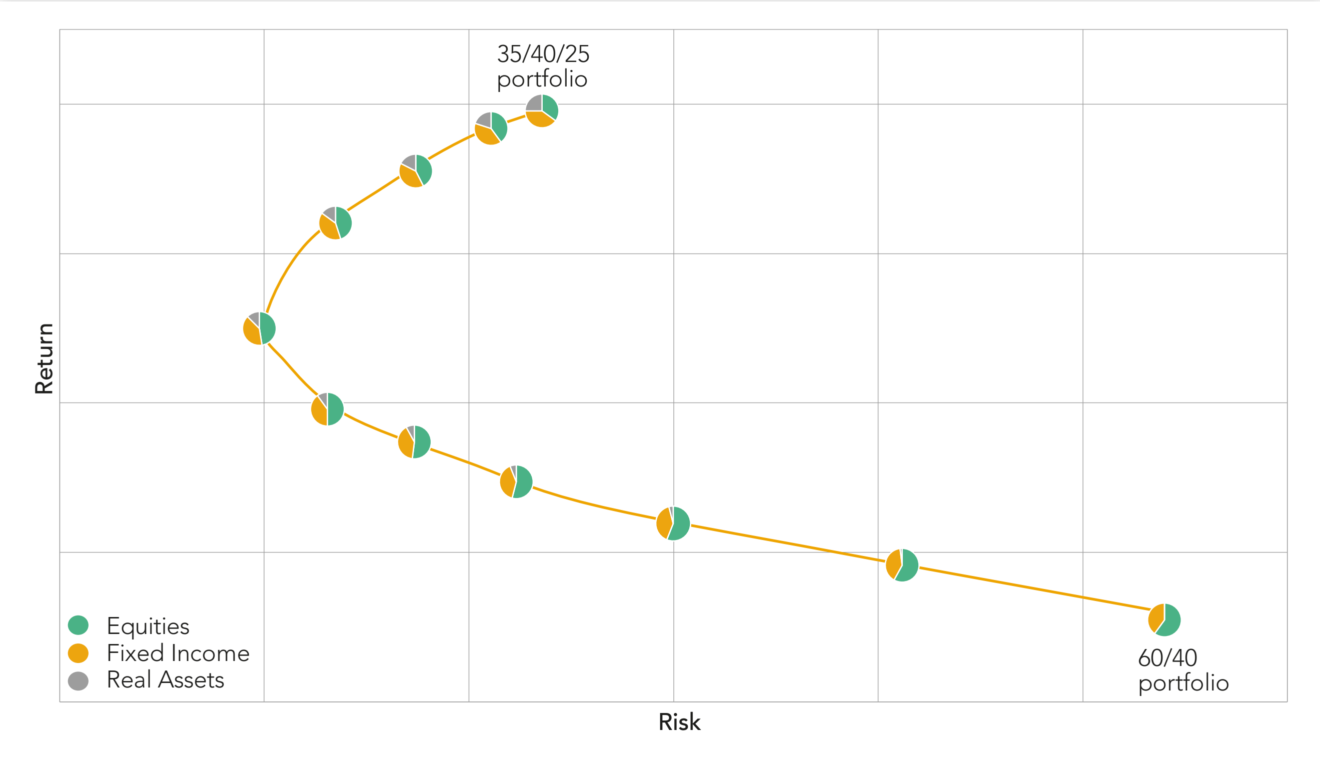
Added value of real assets in investment portfolios

In recent years, institutional investors have shown an increasing interest in alternative investments. Various studies show that adding real assets to a traditional 60/40 portfolio (shares and bonds) improves the risk-return profile of the total investment portfolio1. There is a low correlation between real assets and traditional investments such as shares and bonds, which makes diversification with real assets worthwhile, as shown in the figure below.

We expect insurers to continue looking for the positive absolute returns provided by real assets. With the introduction of the new pension law, a.s.r. real assets investment partners also expect there to be interest coming from pension funds.

Finally, for the portion of the portfolio that generates positive excess returns, there is an important role reserved for alternative investments such as real assets and at the same time a need for liquidity to be properly managed.

A portfolio that is actively managed will ideally include private assets such as real estate and infrastructure in its composition. To manage this portfolio as optimally as possible, a.s.r. real assets investment partners have integrated the management of the real assets portfolio so that it is less relevant to which specific underlying asset class an investment proposition belongs. This is because, at a fundamental level, the real asset classes of real estate, infrastructure, and agriculture and forestry are strongly comparable and have clear similarities, such as exposure to the same megatrends, ESG themes and SDGs, sectors, and risk drivers.



1 Cote, C. How to diversify your portfolio with alternative investments. Harvard Business School online, 2021
Scherer, B. Adding alternative assets: return enhancement, diversification or hedging? Journal of Asset Management, 2021
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Integrated portfolio management

The fundamental value and risk drivers of investment strategies are determined by the megatrends that have a major influence on the world in which we live. Real assets are highly suitable as a response to these megatrends and when putting together a futureproof investment portfolio. a.s.r. real assets investment partners have identified the following megatrends:

ESG & climate change	Demographic changes	Technology & innovation	Economic shifts
Net zero strategies	Affordable housing	Digital infrastructure through strong growth in data use	Altered power relations with Asia-Pacific region
Transition to renewable energy	Respond to the elderly and students	Increasing digitisation for consumer and business processes	Less dependence on other countries
Improve biodiversity	Increasing demand for passenger transport	Innovations in food production	Logistics and infrastructure aimed at supply chain optimalisation
Carbon credits	Food security for growing world population	Technological innovations in timber construction	Hedging against inflation

The aforementioned megatrends can be implemented in various ways in real asset investments, with the various underlying themes and asset classes being increasing related to each other. For example, smart buildings and the systems used in them clearly come under the Technology & Innovation theme that can also be included in the portfolio via different asset types. After all, in addition to an investment in real estate, the required technology and associated hardware are classified as infrastructure. Other examples of where the classic asset categories merge together when applied to real assets include the installation of renewable energy facilities on agricultural land and the redefining of existing real estate into infrastructure solutions, such as the conversion of logistics halls into data centres or other relevant innovations.

The ESG & Climate Change theme is clearly reflected in investment propositions aimed at making the built environment more sustainable. For example, you could consider making logistics real estate more sustainable, in which infrastructure funds work together with real estate investors to equip the roofs of large hall complexes with solar panels that could be used for both the building's energy supply and for the EV charging of freight transport. The next step is for this local energy supply to become bi-directional, so that electric trucks can both recharge and discharge to the benefit of the company premises, and to reduce its dependence on the surrounding energy network. In this example, it is evident that a combination of real estate and infrastructure investment knowledge is required to be able to manage the aspects that contribute to achieving the best possible risk-return profile.

Institutional investors are increasingly looking for ways to generate a positive impact with their investments. Large portions of the portfolio have specific characteristics and roles that make them less suitable for achieving this ambition. These include listed equities and fixed income products that are more often passively managed to pursue beta exposure and for hedging purposes. However, generating a positive impact often requires making active choices where the (positive) impact is intentional and clearly measurable. Real assets are ideally suited for this and the (particularly private) offerings have been growing steadily in recent years, with some investment options only accessible via the real asset spectrum, such as agriculture and forestry.

In the field of climate change, renewable energy projects include wind and solar energy (green electrons), but also hydrogen and other green molecules. Another example within the ESG & Climate Change theme are the so-called brown-to-green transitions in which companies and assets are made more sustainable. Themes and megatrends that can be translated into energy transition projects are implemented through investments in renewable energy (infrastructure), making buildings more sustainable (value-added real estate), and carbon credits (forestry).

A real assets portfolio can also make concrete anticipated demographic changes such as aging, with the option of approaching this from an impact perspective. Investing in healthcare real estate leads to a real estate-related risk return profile, but by opting for ambulance transport or services in nursing homes, you place more emphasis on social infrastructure. The real estate component has a slightly higher risk profile than that of infrastructure, as this involves long-term contracts with healthcare providers and the (local) government, often with a pre-agreed inflation component. By opting for an integrated approach to the management of these assets, a better connection can be made between the investment and the investor's policy should they want exposure to the theme of aging.

All these aspects add to the benefits of having an integrated portfolio management for real assets. Linking SDGs to specific real asset investments and combining investments in infrastructure, real estate, and agriculture and forestry make it possible to build and maintain a balanced portfolio that does justice to an investor's ESG policy.

Conclusion

Real assets clearly add value to institutional investment portfolios. However, to achieve an optimal risk-return profile and make maximum use of the underlying megatrends, an integrated approach is needed for the management of the real assets portfolio. There are clear relationships between the different real asset classes and this approach makes it possible to use those categories where the most impact on the portfolio or theme can be created without the limitations of the classic separation of real estate, infrastructure, and land and forestry. This also makes it easier to invest in investment categories that, although attractive, are more difficult to categorise. This includes data centres, telecommunications towers and social infrastructure, all of which are included by investors in both real estate and infrastructure portfolios.

On the one hand, managing the investment categories separately without an integrated view across those categories can result in suboptimal solutions in which opportunities go unexploited because there is insufficient or no exposure to desired characteristics. On the other hand, there may be unnoticed overweight exposure to certain macroeconomic events, resulting in increased risks in relation to such things as disruptions in the global logistics chain. Two striking examples were the blockage of the Suez Canal and disruptions to transport movements during the corona crisis.

In conclusion, a.s.r. real assets investment partners expect the importance of investment categories such as infrastructure and agriculture and forestry to increase over the coming years. This growth will probably go even faster than the growing demand for real assets as a whole.
An integrated view of the real assets portfolio makes it possible to move with the needs of institutional investors, making maximum use of the benefits that real assets bring with them.

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