Global Perspective

August 2014

Real assets have been garnering interest from long-term investors attracted by prospective positive real returns and enhanced diversification. Opportunities arise from the rehabilitation of securitisation; at least as far as funding the real economy is concerned. The divestment of bank-owned portfolios increases the supply of assets to the market. Illiquid and inefficient markets point to sustainable returns but careful analysis is required.

Standard Life Investments

Real assets, real potential

Investor interest in a range of real assets has been building for some time. The global financial crisis (GFC) represented something of a tipping point. While disenchantment with financial assets has played a part in the rising popularity, proponents point to an attractive mix of attributes: bond-like income streams, relatively stable and historically robust absolute returns, and the potential for capturing equity upside with lower volatility and global exposure. Real assets are favoured for diversification potential arising from a lack of correlation with other assets and with each other, and also their inflation hedging properties. In this article, we look at the characteristics and prospects of the various assets that are categorised as real and assess how well they meet the brief.

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Real assets is a very broad term for a diverse group of assets that includes some or all of real estate, inflation-linked bonds, infrastructure, commodities, timberland and farmland. These assets may be 'real' in the sense that they are close to or connected to tangible means of production. Alternatively, the distinction could be between 'real' as opposed to nominal or financial assets.

Even a cursory overview of real assets suggests they differ substantially. More detailed consideration takes in topics such as the source of returns, duration, liquidity, whether the assets are readily available and quoted on markets, or private and unlisted, and whether the available instruments are bonds, equities or somewhere between (Table 1). These factors influence the success or otherwise of real assets when it comes to providing effective diversification and generating a real return over inflation throughout the cycle.

An eclectic cast of assets

The total investable universe for real assets is vast (the private markets are perhaps double the size of the combined market for listed equities and fixed income). There is some commonality in their drivers but also disparities in the structure and evolution of the various markets. Economic growth and development, urbanisation and meeting the requirements of expanding middle classes, particularly in emerging markets, boosts demand for tangible real assets such as commodities, natural resources, infrastructure and real estate. Chart 1 illustrates the overlap of infrastructure, natural resources and commodities, with natural resources encompassing oil and gas, timberland, farmland and agricultural products, and metals and mining.

Prime building blocks

Real estate is typically the favoured form of investment in allocations to tangible real assets. The market is substantial, at around $8.9 trillion, well established and increasingly global. The global aspect allows specialist managers to allocate between different local markets as well as between sectors – commercial, retail, industrial and residential. The asset class is accessible through the $6.6 trillion direct, albeit illiquid, investable property market, and approximately $2.3 trillion of more liquid, indirect instruments, such as real estate investment trusts (REITs) and property companies. The bulk of the returns over time are generated through income, in the form of rents, with a fillip from capital appreciation.

Hedging about bonds

Inflation-linked bonds (ILBs), as the name suggests, are tied to inflation, usually CPI, and are designed to serve as a hedge

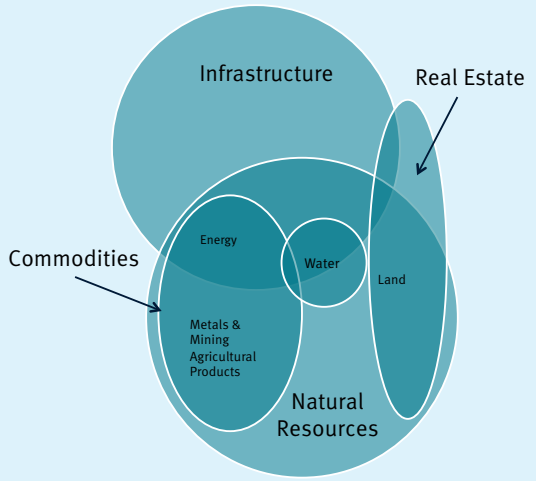
Table 1: Real asset characteristics

Characteristic	ILBs	Commodities	Infrastructure	Timberland	Farmland	Direct Real Estate (US)	Direct Real Estate (UK)	REITs
Benchmark	Barclays Inflation Linked Index	CRB Index	Dow Jones Brookfield Infrastructure Index	NCREIF Timber	NCREIF Farmland	NCREIF Property	IPD	NAREIT EPRA
10 year Correlation to Equity	High-Negative	Low	High	Low-Negative	Low-Negative	Low	High	High
10 year Correlation to Bonds	Moderate	Low-Negative	High-Negative	Low-Negative	Low-Negative	Low-Negative	Low-Negative	Low-Negative
10 year Correlation to Inflation	High-Negative	High	Low	Low	Low	Moderate	Low	Low
Liquidity	High	High	Low	Low	Low	Low	Low	High
Market Openness	High	Moderate	Improving	Low	Low	Moderate [1]	Moderate [1]	High
Source of Returns	Inflation-adjusted coupon received	Collateral Return, Risk Premium, Rebalancing Convenience, Rolling Yield	Cashflows generated by underlying assets, Capital Gains	Land, Timber prices, Biological growth, Income, Appreciation	Income, Capital Appreciation	Income, Capital Appreciation	Income, Capital Appreciation	Income, Capital Appreciation

[1] Via expert fund managers

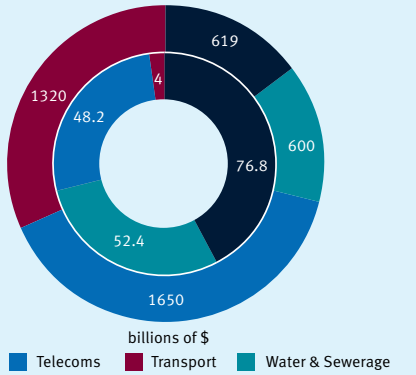
Source: Datastream, Bloomberg, Standard Life Investments (as of July 2014)

Chart 1
Venn real assets collide



Source: Standard Life Investments

Chart 2
Infrastructure investment gap



The outer circle represents the proportion of infrastructure investment needed annually to 2030.

The inner circle represents the proportion of infrastructure investment by sector that is actually invested.

Source: OECD (as of December 2012)

against rising prices. They trade in a liquid form. As bonds, the returns are income based. The vast majority are issued by sovereigns, with US Treasury Inflation Indexed Securities, (TIPS) making up around 45% of the market and UK index-linked gilts another 31%. Within corporate bond markets, floating rate notes may also provide some inflation protection as the coupons adjust periodically with reference to interest rates set with inflation targets in mind. These instruments can also be issued in asset-backed form, secured on real assets such as infrastructure or property.

(Re)building the world

Infrastructure is the collective term for the physical assets, facilities or systems of a country or entity. It encompasses sectors such as transportation, communication, energy and utilities, as well as social infrastructure providing public goods. Transportation infrastructure includes ports, airports, railways, bridges and toll roads, while social infrastructure relates to education, healthcare, prisons, defence and other public buildings. Within this extensive collection, the common features are the long-term nature of the investments, high initial costs, and the monopolistic nature of the resulting entities leading to sustained cash-flow generation that increases with inflation. The operating environment for infrastructure is often regulated, adding to the predictability of income streams. Investment vehicles and types vary from sector to sector. For example, social infrastructure is more likely to be debt financed while specialist tax-efficient vehicles are a popular equity route into energy infrastructure.

The need for infrastructure investment is global, whether for replacement, renewal or development. The World Economic Forum's February 2014 report highlighted its importance as a key driver of growth, competitiveness and social well-being. It identified an estimated global investment shortfall of at least $1 trillion per annum. Chart 2 illustrates the estimated infrastructure investment gap out to 2030 for some sectors. The recognition of the investment requirement and commitments at government level to sizeable projects suggests that this is a market with significant growth potential.

Appreciating commodities

The main divisions in commodity markets are energy, metals – industrial and precious – and agriculture. The breakdown in one of several benchmark indices is shown in Chart 3. Commodities were embraced wholeheartedly by investors as a means of diversifying from mainstream bonds and equities, protecting against future inflation and/or for their exposure to growth in the emerging economies in the mid-2000s. They became even more popular for their perceived distance from the financial-related unravelling and regulatory backlash post-GFC. Physical trading at spot prices is the exception rather than the rule. Investment takes place along forward curves, predominantly in the form of collateralised commodities futures on either individual commodities or one of the myriad commodity indices. A plethora of low-cost index-tracking products and funds has improved access to the asset class for both institutional and retail investors.

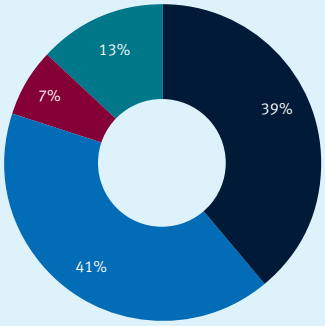
The bulk of the total return is from price movements. Commodities themselves do not generate income, although there may be interest income related to collateralisation or income/costs derived from rebalancing and rolling from one contract to the next, depending on the shape of the forward curve. The comparative lack of an income stream matters less while returns on cash scrape along the bottom, unless investors are targeting sustainable yield. Investors reduced exposure to commodities in 2012-13 after a couple of years of negative price returns but flows have recently stabilised. Total global commodity assets under management were $325 billion in June 2014, according to Barclays Capital. Commodity-related equities crop up in the materials, energy and industrial sectors. Industries include, for example, agrichemicals, mines and mining equipment, and oil and gas.

Farms and trees

Timberland and farmland share some features with both real estate and commodities. In the case of timberland, returns derive from appreciation of assets – land, timber and organic growth of the trees – and, to a lesser extent, income. Forests are cultivated to supply wood for the lumber, pulp, paper and timber industries. The private investable universe is estimated at $300 billion with around $60 billion invested. Here, Timber Investment Management Organisations (TIMOs) act as brokers and managers for institutional investors to invest directly. Meanwhile, the publicly-traded, timber-related securities, some of which are set up as REITs to own and operate timberland and others as forestry, pulp and paper products companies, have a market capitalisation of around $125 billion.

Farmland and agriculture have a clear overlap with the agricultural suite of commodities. The returns are largely derived from net operating income in the form of regular cash flows with a contribution from appreciation. The split between income and capital is not dissimilar to that on real estate, while the appreciation element is boosted at times of rising commodity prices, which has flattered returns in the last decade. Institutional investors can invest via collective

Chart 3
Weighing in on commodities

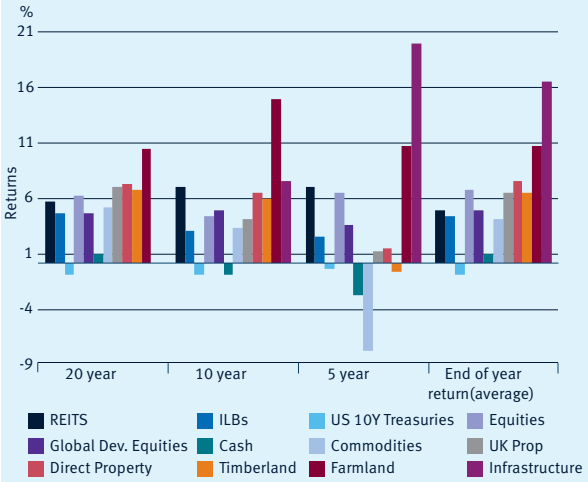


Percentage weighting in Thomson Reuters Jefferies/CRB Commodities index of:

Energy | Agriculture | Precious Metals | Base/Industrial Metals

Source: Thomson Reuters (as of 2014)

Chart 4
Real returns for real assets



Source: Bloomberg, Datastream, Standard Life Investments (as of Q4 2013)

schemes managed by specialist investment groups. However, despite an estimated investable universe of $1 trillion these schemes manage only around $35 billion of assets. This compares with a listed agribusiness market of around $350 billion.

Diversification

For effective diversification, real assets will have low or ideally negative correlations with mainstream bond and equity markets and, when incorporated into a portfolio, should contribute higher returns for given levels of risk, moving the efficient frontier outwards. Our correlation analysis (Table 2) shows variation over different time frames and market environments. Pre-GFC and more recently, real assets have been good diversifiers. In the immediate aftermath of the crisis, correlations increased as other drivers, such as liquidity, prevailed and risk preferences changed.

As far as the efficient frontier is concerned (Chart 5), commodities, the first real asset added to the mix, hardly shifts the frontier. This might reflect the volatile nature of the asset class. Alternatively, it could be because the opening of the commodity markets via marketable securities, such as exchange-traded instruments, has resulted in higher correlations with equity markets. This has been evident in the risk-on/risk-off trading environment prevalent between 2010 and 2012. Direct investment in other real assets, first real estate in portfolio 3, and then timberland, farmland and infrastructure in portfolio 4, have a more pronounced impact.

One point to note is that some of the more illiquid assets price infrequently; for instance pricing for direct property, timberland and farmland tends to be quarterly, annually or less often. Infrequent pricing may flatter the volatility readings and skew the analysis. Such assets tend to enjoy high return/risk ratios (Chart 6) and feature heavily in theoretically 'efficient' portfolios. We have limited the exposure in our calculations on the grounds that long-term investors are likely to manage the liquidity profile of their portfolios. Because our analysis is primarily concerned with long-term investing, real assets are represented on a long-only basis, although the instruments for temporarily shorting some of the assets do exist.

Inflation protection

Though hedging against inflation may not seem a pressing concern in the current environment, over time even low levels of inflation has a deleterious effect. Our analysis shows that the best hedge for inflation depends on the time frame being considered. The assets offering the best inflation-adjusted return on a one-year time horizon are not the same as those that perform on five, 10 or 20-year horizons (Chart 4). ILBs are constructed to hedge inflation but the hedge may be imperfect because of supply and demand factors, the measure of inflation chosen, and discrepancies between actual inflation and inflation expectations. TIPS, for instance, look like a better hedge for evolving inflation expectations than for month-to-month inflation readings.

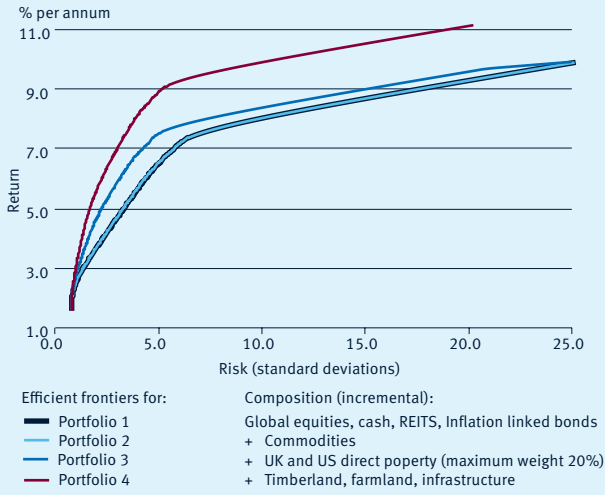
Correlation between other assets and inflation is subject to change across different periods and cycles, while access and liquidity must also be taken into account. Overall, the major real assets, excluding commodities, appear to do better than the oft-cited safe haven of government bonds in generating real returns. The relationship between commodities and inflation is significantly positive; commodities have performed poorly against the recent backdrop of global deflationary pressures. The GFC affected most real asset classes, but interestingly infrastructure produced positive returns throughout, while real estate returns dipped only temporarily. Farmland outperformed other real assets on the longer time horizons but the commodity tailwind may not be replicated going forward.

Illiquidity, periodic valuations and barriers to entry may serve to mask inflation effects in private markets, and also make tapping into such returns difficult to begin with. Data on infrastructure investment returns is less extensive but it has performed well on the 10, five and one-year horizons, outperforming all other assets in the latter two periods. This reflects again the changing nature of inflation correlation. Furthermore, evolving access routes to real assets will also determine the degree of inflation exposure; specialised bond and equity structures, as well cash flow determinants across assets, will react differently to inflationary and deflationary pressures.

Duration, drawdown and deviations

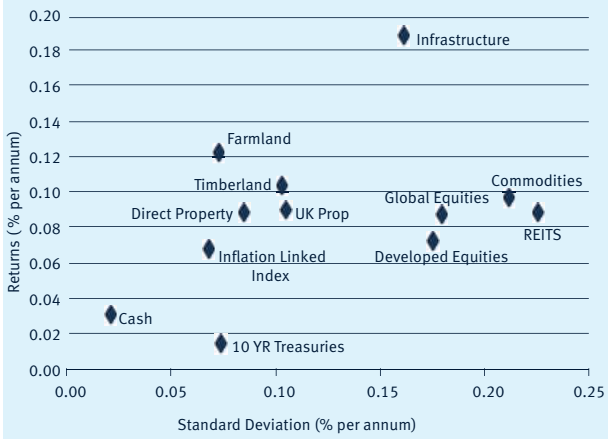
The shape of returns on real assets is variable. During and for several years following the GFC, there was an overwhelming focus on short-term liquidity, possibly because an identified cause of the crisis was the mismatch created by banks' funding of long-term assets with short-term borrowings. Markets for liquid assets were seen as more efficient and transparent, offering greater comfort as well as a constant stream of data to risk-averse investors. As time horizons shortened, short-term liquid assets were sought after and their prices bid up. Over time, however, maintaining high

Chart 5
Seismic shifts from private real assets



Source: Datastream, Bloomberg, Standard Life Investments (as of Q4 2013).

Chart 6
Real assets: a calculated risk?



Source: Bloomberg, Datastream, Standard Life Investments (as of December 2013)

exposure to liquid, low-risk investments is associated with lower returns. As perceived risk recedes but interest rates remain stubbornly low, so investors are seeking higher returns in exchange for higher risk. This can take the form of including longer duration or less liquid investments as well as more volatile assets. Long-term investors have an opportunity to adopt a portfolio approach towards liquidity, based on a mix of liabilities, cash requirements and time preference.

Clearly, the division between public and private assets is important in the efficiency and liquidity of the markets being considered. The ease of investing and divesting holdings in secondary markets is a key consideration for active investors. Infrastructure in particular has been something of a problem child in the past few decades with the funding vehicles, Public Private Partnerships (PPP) and its sub category Private Finance Initiatives (PFI), providing a mixed experience for investors and taxpayers. Direct investment in real assets offers prospects of more control over governance and possible cost savings, as the alternative routes into private markets often come with expensive fee structures. However, due diligence requirements are onerous, identifying suitable investments may be difficult and the markets tend to be illiquid.

The duration spectrum for real assets varies from inflation-linked bonds and some commodities at the short end to direct holdings in infrastructure and real estate at the long end. Besides the maturity profile of the assets, market access and liquidity is important. Direct investment in timberland ranges between 4-12 years for Christmas trees to mature to more than 80 years for larger trees. Direct investment in real estate also involves long-term commitment, but income cash flows are consistent, compared with those of timber and farmland, whose returns are subject to growth cycles, weather-related and seasonal variations. Equity ownership of infrastructure traditionally generates limited returns until the construction phase is complete and the project is mature. However, increasing securitisation of infrastructure and real estate is opening up these markets, widening the duration choice across securities to suit diverse investor preferences. For investors interested in shorter-term investments, listed investments such as REITs or commodities or utilities are more liquid but returns thereon are subject to equity market type volatility.

The future for real assets

Significant changes are taking place that could broaden the appeal of real assets to global investors. Firstly, in the regulatory aftermath of the GFC, investment and commercial banks have scaled down their involvement in and exposure to real estate, infrastructure and commodities. The withdrawal of the banks as active investors represents an opportunity for other active investors to enter into markets where inefficiencies may lead to more persistent returns. The increased supply of some real assets to secondary markets as the banks have divested portfolios has encouraged some longer-term investors to invest in assets that more closely match their time horizons. However, there is often still some way to go before liquid secondary markets exist.

Secondly, there has been a volte-face on the part of politicians towards securitisation. Having condemned the role of securitisation in the financial crisis, the marked change of attitude relates to funding for real economy, including small and medium enterprises (SMEs) and infrastructure. The traditional division between bond-type real assets (inflation-linked bonds, TIPS and floating rate notes) and those with equity-like characteristics (commodity futures, infrastructure, timberland, farmland and real estate) is being blurred as new instruments are introduced and new avenues for investment are opened. Examples include real estate debt, infrastructure ETFs and securitisation related to infrastructure.

Real assets are very powerful in portfolios. However, they do not represent a universal solution for investors. This is frictional investing; returns can be lumpy, entering and exiting positions long drawn out and asset valuations subject to significant moves. Real assets are not fungible; there is no smooth transition between them or between public and private markets. There are huge variations in and between the relevant markets. For example, despite the name, commodities are anything but generic. The long-term inflation-hedging qualities of real assets may require decades of patience on the part of investors before they bear fruit. Overall, a careful and considered approach is essential – in relation to the selection and location of assets as well as to contract and regulatory analysis.

Looking ahead, a concern is that the development of the more liquid avenues for investment comes along with the potential that in the public (listed) markets, at least, real assets become a crowded trade. The risk is that the prevalence of low policy rates prompts more investors to engage in a hunt for yield and the returns available diminish. In private markets such as direct investment in real estate or infrastructure where longer-term commitments are the norm and access is less open, returns may be more sustainable.

Table 2
Conditions alter correlations

Full Period (2003-2013)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII
I Infrastructure	1												
II Global Inflation	0.16	1											
III REITS	0.85	0.12	1										
IV Inflation Linked	-0.67	-0.12	-0.50	1									
V US 10Y Treasuries	-0.54	0.12	-0.44	0.46	1								
VI Equities	0.88	0.09	0.83	-0.64	-0.62	1							
VII Developed Equity	0.91	0.07	0.82	-0.66	-0.70	0.97	1						
VIII Cash	0.07	0.29	-0.12	-0.24	-0.06	-0.18	-0.02	1					
IX Commodities	0.45	0.70	0.52	-0.19	-0.21	0.34	0.40	0.15	1				
X UK Prop	0.80	0.13	0.80	-0.65	-0.48	0.71	0.72	0.06	0.47	1			
XI Direct Property	0.45	0.60	0.31	-0.50	-0.09	0.34	0.35	0.39	0.49	0.62	1		
XII Timberland	-0.09	0.29	-0.26	-0.13	-0.12	-0.23	-0.08	0.79	0.22	-0.02	0.49	1	
XIII Farmland	-0.04	0.03	-0.12	-0.12	-0.20	-0.13	-0.05	0.56	0.00	0.18	0.51	0.77	1

Pre- GFC (2003-2007)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII
I Infrastructure	1												
II Global Inflation	-0.26	1											
III REITS	0.51	-0.78	1										
IV Inflation Linked	-0.22	-0.37	0.16	1									
V US 10Y Treasuries	0.38	0.11	-0.19	-0.18	1								
VI Equities	0.44	-0.28	0.54	-0.14	-0.04	1							
VII Developed Equity	0.39	-0.30	0.58	-0.05	-0.11	0.98	1						
VIII Cash	-0.19	0.41	-0.45	-0.49	0.14	-0.33	-0.34	1					
IX Commodities	-0.18	-0.25	0.33	0.53	-0.18	0.08	0.12	-0.78	1				
X UK Prop	0.08	-0.68	0.62	0.24	-0.55	-0.13	-0.08	-0.22	0.18	1			
XI Direct Property	-0.36	0.04	-0.30	0.13	0.01	-0.73	-0.67	0.65	-0.41	0.27	1		
XII Timberland	-0.65	0.11	-0.35	0.06	-0.03	-0.63	-0.55	0.67	-0.20	0.06	0.81	1	
XIII Farmland	-0.55	-0.21	-0.09	0.28	-0.28	-0.61	-0.52	0.47	-0.13	0.48	0.88	0.87	1

Post-GFC (2008-2011)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII
I Infrastructure	1												
II Global Inflation	0.25	1											
III REITS	0.90	0.23	1										
IV Inflation Linked	-0.82	-0.22	-0.82	1									
V US 10Y Treasuries	-0.68	0.12	-0.61	0.31	1								
VI Equities	0.99	0.20	0.93	-0.82	-0.72	1							
VII Developed Equity	0.98	0.18	0.91	-0.77	-0.75	0.99	1						
VIII Cash	-0.47	0.46	-0.45	0.58	0.39	-0.49	-0.44	1					
IX Commodities	0.56	0.90	0.58	-0.46	-0.19	0.53	0.50	0.23	1				
X UK Prop	0.83	0.27	0.86	-0.81	-0.34	0.83	0.76	-0.56	0.55	1			
XI Direct Property	0.29	0.86	0.24	-0.42	0.30	0.25	0.19	0.16	0.73	0.47	1		
XII Timberland	-0.58	0.46	-0.59	0.58	0.52	-0.61	-0.56	0.96	0.16	-0.65	0.21	1	
XIII Farmland	-0.73	0.30	-0.75	0.56	0.64	-0.77	-0.75	0.72	-0.08	-0.76	0.14	0.85	1

Recent (2012-2013)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII
I Infrastructure	1												
II Global Inflation	-0.48	1											
III REITS	0.59	-0.12	1										
IV Inflation Linked	-0.16	0.51	0.41	1									
V US 10Y Treasuries	-0.29	0.31	0.43	0.64	1								
VI Equities	0.65	-0.36	0.09	-0.55	-0.75	1							
VII Developed Equity	0.63	-0.41	-0.04	-0.61	-0.90	0.92	1						
VIII Cash	-0.14	0.40	0.63	0.52	0.77	-0.37	-0.55	1					
IX Commodities	0.33	-0.02	-0.29	-0.28	-0.56	0.19	0.50	-0.52	1				
X UK Prop	-0.31	0.25	-0.66	-0.53	-0.41	0.37	0.25	-0.32	-0.04	1			
XI Direct Property	-0.60	0.84	-0.08	0.48	0.62	-0.53	-0.70	0.51	-0.42	0.30	1		
XII Timberland	0.25	-0.47	-0.52	-0.59	-0.85	0.42	0.70	-0.85	0.76	0.14	-0.74	1	
XIII Farmland	0.17	-0.56	-0.59	-0.73	-0.83	0.43	0.65	-0.94	0.55	0.29	-0.68	0.93	1

Source: Bloomberg, Datastream, Standard Life Investments (as at 31 March 2014)

House View

The following asset allocation is based upon a global investor with access to all the major asset classes. For regional versions of the House View, please contact your Standard Life Investments representative.

	August 2014 House View	
Risk	The Global Investment Group emphasises moderate levels of risk, focusing on assets either with sustainable yield or those able to provide sustainable earnings expansion in a moderate growth environment.	NEUTRAL
Government Bonds		
US Treasuries	Stronger economic data and QE tapering are slowly bringing forward market expectations for interest rates to rise from mid-2015, although the Fed will use forward guidance to resist a rapid upward movement in yields.	LIGHT
European Bonds	Very low inflation in the context of a moderate economic recovery provides significant support for bonds. The TLTRO programme, and the possibility of QE to prevent entrenched deflation, can cause peripheral spreads to tighten further.	HEAVY
UK Gilts	The asset class is vulnerable to interest rate increases as economic growth remains firm, when valuations are expensive. Manageable inflation pressures and central bank guidance can anchor rising bond yields.	LIGHT
Japanese Bonds	The inflation outlook is deteriorating as the government aims for reflation, although the Bank of Japan's bond-buying programme should prevent yields rising too significantly.	LIGHT
Global Inflation-Linked Debt	Inflationary conditions are subdued in many developed economies, although valuations in individual countries require careful examination. Investor worries remain about future inflation eventually triggered by easy monetary policies.	NEUTRAL
Global Emerging Market Debt	Dollar-denominated bonds are Heavy as spreads show better value, while local currency bonds are Neutral as careful examination is required of individual currency and spread factors.	HEAVY/NEUTRAL
Corporate Bonds		
Investment Grade	Attractions such as positive corporate cash flows are increasingly priced in, while upward pressures from government bond markets will periodically affect total returns.	NEUTRAL
High-Yield Debt	Although spreads are tight, the outlook for bond defaults is favourable while the corporate earnings outlook is positive. Valuations and flows are more supportive for European debt than US debt.	NEUTRAL
Equities		
US Equities	Although the market is relatively expensive, the favourable economic fundamentals continue to support a steady uptrend in corporate earnings, with share buy backs providing a further return for investors.	HEAVY
European Equities	While valuations are supportive and corporate competitiveness improving, earnings are restrained by the recent appreciation of the euro as well as weak pricing power for many companies.	NEUTRAL
Japanese Equities	Structural reforms remain outstanding but the growing management focus on return on equity and the plans to cut corporation tax are supportive. Meanwhile, the Bank of Japan should eventually take more action to reach the inflation target.	HEAVY
UK Equities	The noticeable improvement in the domestic economy is feeding through into stronger earnings growth, although the strength of sterling is acting as a headwind for many overseas-facing companies.	HEAVY
Developed Asian Equities	Slower commodity demand from China and other major emerging economies is affecting some countries such as Australia, but currency flexibility is beginning to help rebalancing across key sectors.	NEUTRAL
Emerging Market Equities	Performance is increasingly divergent; while some countries benefit from strong domestic fundamentals, others are under pressure from politics, current account deficits and tighter monetary policy required to stabilise depreciating exchange rates.	NEUTRAL
Real Estate		
UK	The improving growth environment is expected to bolster prices in the near term, and yields remain attractive compared to other assets, suggesting strong returns over a three year holding period.	HEAVY
Europe	In line with the economic improvement in peripheral Europe, the gap in real estate performance between core and southern European real estate markets is narrowing.	NEUTRAL
North America	While pricing and development is peaking in Canada, the best regional opportunities lie in small US cities with a strong growth outlook. US supply is increasing in some submarkets but development is generally constrained.	NEUTRAL
Asia Pacific	Yields have found a floor and recovering rents are driving pricing, further fuelling investor activity. Japan remains ahead in the property cycle, helped by the government's reflation policies.	NEUTRAL
Other Assets		
Foreign Exchange	The US dollar will benefit from eventual monetary policy tightening while ECB action should weaken the euro, which is limited by a strong current account. A weaker yen will support the Japanese economy.	MOVED TO VERY HEAVY $, NEUTRAL £, MOVED TO LIGHT €, LIGHT ¥
Global Commodities	Different drivers, such as a rise in the US dollar, Chinese demand, Middle East tensions, and climatic conditions, influence the outlook for different commodities.	NEUTRAL
Cash		
	While some central banks have pledged to keep interest rates lower for longer, others are beginning to tighten monetary policy, especially in emerging markets.	LIGHT

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