Dialing Up Diversity

INSTITUTIONAL INVESTING IN REAL ASSETS

PGIM

Webinar Summary

Ed Campbell
Managing Director and
Portfolio Manager
QMA

Harsh Parikh
Principal and Head of the IAS
Real Assets Research Program
PGIM

Bruce Phelps
Managing Director and
Head of IAS
PGIM

Whether during traditional market cycles or in a world of pandemic-induced uncertainty, real assets can play a valuable role in institutional portfolios. In recent months, PGIM's Institutional Advisory & Solutions (IAS) group has done extensive research estimating real asset sensitivities to both macroeconomic variables, such as growth and inflation, and traditional financial market performance, like stock and bond returns.

To further expand on the findings, the head of IAS, Dr. Bruce Phelps, hosted a webinar with Dr. Harsh Parikh, a principal and head of the IAS Real Assets Research Program, and Ed Campbell, a managing director and portfolio manager at PGIM's QMA. Following are excerpts from their discussion; the full webinar can be found here:

- **There is diversity across real assets.** Many investors tend to bucket real assets, such as infrastructure and real estate, into one, general category. But for both public and private real assets, the macroeconomic and market sensitivities are very different, not only at the asset class level, but also at the sector level. Depending on the investment objective, the composition of a real asset portfolio can vary significantly. These findings support a diversified portfolio approach to real asset investing or active management of real asset portfolios.
- **Investment horizon in real asset portfolio construction is a key consideration.** As an example, our research shows that gold's correlation with inflation differs significantly for a six-month time horizon versus a five-year horizon. Indeed, there have been many studies regarding the potential institutional role for gold, often with contradictory conclusions, but we have found that the inconsistent findings are attributable to differences in the time periods examined and the assumed investment horizon. Gold-related assets can play an important role, separate from commodities and energy equities, in institutional portfolios.
- **Real assets can play a vital role in a global, multi-asset portfolio.** When properly utilized, real assets may provide long-term, positive real returns, diversification to traditional assets, and a potential hedge against rising interest rates and inflation. At a time when the appetite for risk is low, such as in today's volatile investment environment, we believe exposure to TIPS and gold makes sense given a high level of risk-on/risk-off trading and the high correlation among risky assets. In a more typical risk-appetite landscape, there is usually lower correlation among risk assets, so investors usually benefit from diversification among those assets.
- **The near-term outlook is uncertain, but longer-term things look better.** While the economy is suffering through a severe contraction, eventually the coronavirus will be subdued, and the economy will likely recover. However, the timing and strength of that rebound remains highly uncertain. It is also true that investors may be underappreciating the impact of inflation, not only as a result of extreme government policy intervention but also due to the trend toward deglobalization, which the virus will intensify, and heightened political populism, both of which tend to be inflationary.

In upcoming research papers, IAS expands its analysis from individual real assets to real-asset funds, in addition to investigating how large plan sponsors have allocated to public and private real assets over the past 10 years. IAS will also be hosting future webinars featuring PGIM portfolio managers and analysts from other real asset sectors.

For inquiries and to learn more about PGIM's investment advisory capabilities, email IAS@pgim.com. Learn more at pgim.com/IAS.

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