Real Assets

Real assets—as represented by a blend of 27.5% FTSE EPRA Nareit Developed Real Estate Index NR, 27.5% Bloomberg Commodity Index TR, 15% Dow Jones Brookfield Global Infrastructure Index TR, 15% S&P Global Natural Resources Index NR, 10% ICE BofA U.S. Corporate 1-3 Yr Index TR and 5% gold spot price—had a total return of 3.2% for the 2023 calendar year (in U.S. dollars, net of dividend withholding taxes).

Investment Review

Diversified real assets moved higher in 2023, led by global real estate and gold. Interest rates played an outsized role in influencing prices throughout the year, with the market focused on the potential timing and magnitude of central bank pivots following extensive monetary policy tightening. The U.S. 10-year Treasury yields fell to a year-to-date low of 3.3% during the March banking crisis, then rose steadily to 5.0% by October, only to fall back below 4.0% by year end. In the fourth quarter, softer-than-expected inflation data in the U.S. and Europe drove increased optimism around a shift in monetary policy, pushing bond yields sharply lower. Expectations rose that the Federal Reserve and the European Central Bank could begin cutting benchmark lending rates as early as the first half of 2024.

Global real estate

Global real estate stocks posted strong gains in 2023. In the U.S., real estate shares rose, bolstered by generally healthy real estate fundamentals and, toward year-end, optimism around a "soft landing" for the U.S. economy. Data centers surged, benefiting during the year from strength in cloud demand and the early innings of an expected multi-year tailwind from artificial intelligence (AI). Solid leasing activity and retailer strength buoyed retail-oriented property types, including regional malls, as tenants looked past consumer and economic concerns. Shopping center leasing remained strong as retailers focused on 2025–26. Single-family homes for rent benefited from favorable fundamentals amid supply limitations in the homes-for-sale market, which, in our view, supports attractive rent growth. Apartments trailed on weakened rent growth, with the previously strong Sunbelt region challenged by increased supply and softening demand.

Index Performance (US$)

	Linked Index[1]
Q4 2023	6.14%
1 Year	3.17%
3 Year	6.59%
5 Year	6.65%
10 Year	3.06%

(1) Linked Index: The linked blended index consists of 30% Bloomberg Commodity Total Return Index, 30% FTSE EPRA Nareit Developed Real Estate Index-net, 20% S&P Global Natural Resources Index-net, 12.5% ICE BofA 1-3 Year Global Corporate Index, and 7.5% Gold Spot price from 1/31/2012 through 9/30/2013; and by 27.5% FTSE EPRA Nareit Developed Real Estate Index-net, 27.5% Bloomberg Commodity Total Return Index, 15% S&P Global Natural Resources Index-net, 10% ICE BofA 1-3 Year U.S. Corporate Index, 5% Gold Spot price and 15% Dow Jones-Brookfield Global Infrastructure Index from 10/1/2013 and thereafter.

Data quoted represents past performance, which is no guarantee of future results. Risk of loss is possible.

This information is not representative of any Cohen & Steers account and no such account will seek to replicate an index. You cannot invest directly in an index and index performance does not reflect the deduction of fees, expenses or taxes.

Periods greater than 12 months are annualized.

European real estate shares outperformed during the year. Germany, one of the more rate-sensitive markets in the region, led the advance. Despite a sharp downturn in economic activity, Germany rose meaningfully, as the market is dominated by residential companies—a property type that is relatively insulated from economic swings. France and Spain benefited from strength in retail and office properties. Retail landlords gained on positive leasing momentum amid improving consumer trends. Sweden meaningfully outperformed, despite having one of the least favorable macro backdrops in the region, on expectations for lower interest rates.

The Asia Pacific region was weighed down by weakness in Hong Kong listed real estate. Japan benefited during the year from strength among developers, which reported generally positive earnings results. Among J-REITs, hotels fared well while logistics companies trailed. The interest rate–sensitive Australian listed real estate market ended the year in positive territory, led by companies with residential sector exposure. In Singapore, large-cap industrial REITs and data centers outperformed while names with China exposure trailed.

Global listed infrastructure

Global infrastructure stocks posted modest gains in 2023 with subsectors posting mixed returns for the year. Commercial infrastructure sectors, for one, outperformed. These more cyclical sectors did well as the economy generally performed better than expected. Marine ports were among the top performers for the year. Strong fourth-quarter gains for several key operators in India, the Philippines, and Brazil boosted full-year returns. Railways also outperformed substantially, as companies benefited from higher freight volumes. Midstream energy performed well. Fundamentals remained solid as the macroeconomic backdrop appeared likely to support energy throughput volumes.

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Transportation-related sectors posted positive returns. Airports and toll roads generated healthy returns on improved global growth expectations and continued pent-up demand from the COVID pandemic.

The utilities and communications sectors generated negative returns. Performance across the regulated utility subsectors—electric utilities, water utilities and gas distribution—was weak. In the risk-on broader market environment, investors generally favored less-defensive sectors in 2023. Higher interest rates for much of the year also weighed on performance. Communications stocks also performed poorly as tower companies were negatively affected by higher rates increasing their cost of capital.

Commodities

Commodities experienced negative returns in 2023 following strong absolute and relative returns in 2021 and 2022. The petroleum complex modestly outperformed the broader index during the year but declined 16% in the fourth quarter. A combination of slightly higher OPEC+ production, strong non-OPEC supply growth, and softer global demand pushed crude oil prices to five-month lows. Despite this, supply deficits in the second half of the year helped keep OECD stocks below its five-year average. Natural gas, for its part, declined significantly during the year. Prices in the fourth quarter fell further below $3.00/MMBtu and now sit at six-month lows as strong production growth in the U.S. and warmer than usual weather have storage levels ~8% above normal.

The precious metals complex outperformed the broader index in 2023, as well as during the fourth quarter, as yields and the dollar declined in the U.S. and geopolitical risks remained elevated. The narrative of less restrictive monetary policy and faster than anticipated inflation normalization supported the move late in the year. Base metals, however, underperformed the broader index during the year, in part due to China's initial demand impulse from the first quarter reopening fizzling out. Looking at the fourth quarter, the sector was down despite a weaker U.S. dollar, on rising inventory levels and lackluster macroeconomic data, primarily in China.

Grains also underperformed the index in 2023 as wheat led the sector down on better-than-expected Black Sea flows and expectations for another large Russia crop, although this was tempered late in the year through curbed exports. This underperformance comes despite outperformance in the fourth quarter, with wheat reaching a four-month high on declining southern hemisphere supplies and active buying from China. Soybeans also outperformed late in the year as hot and dry weather in Brazil prompted the market to reduce estimates from another potential record crop.

The entire softs sector outperformed the broader index over the past year due to political factors and growing risk of an El Nino weather pattern. Within the sector, Arabica coffee led the way with strong fourth quarter returns due to a combination of tight stocks and concerns over the 2024 Brazilian crop. Sugar, for its part, underperformed late in the year after rising 20% in the third quarter on supply and policy factors. Cotton also underperformed in the fourth quarter on upward revisions to production and lower demand, which prompted an increase to world stocks. From there, the livestock sector modestly outperformed the index in 2023 with live cattle hitting all-time highs during the year on declining supplies and record cash cattle prices. The fourth quarter, however, brought underperformance, with live cattle falling on higher than-expected feedlot placements and lean hogs retesting year-to-date lows on an unexpected jump in supply.

Natural resource equities

Natural resource equities moved higher in 2023. Energy experienced a pullback in oil prices in 2023 but modestly outperformed its benchmark as oil supply showed resilience driven by strong U.S. production. At the same time, oil demand data points showed weakness, which led to lower gasoline demand and lower gasoline cracks. Within the sector, integrated oil and gas proved strongest while oil sand operators generally delivered on strong execution and generated strong free cash flow which was directed to more shareholder returns.

Materials experienced solid returns in 2023. Fertilizers had a soft year coming off the spike following the Russian-Ukraine war as crop chemicals, in particular, suffered from massive destocking and pricing pressure from generics. Uranium was a strong 2023 performer as prices started to breach long-term trading level of $50 as inventories destocked to a normal level and utilities are back in the market for long-term contracts. The nuclear renaissance thematic has also proved strong with nuclear seen as a clean energy alternative.

On commodity basis, iron ore outperformed base metals as surprisingly strong appetite for metals from China (despite bearish sentiment on lack of forceful stimulus) lifted demand for iron ore relative to base metals, which had a higher portion of demand from developed markets (Europe, U.S.) Gold was initially suppressed by higher rates and the stronger dollar, only to reverse as bets on Fed pivot started to manifest in the fourth quarter, which caused rates to tumble and gold to breach the $2000 dollar mark.

Agribusiness experienced material underperformance due to soft fertilizer prices and weakening grain prices. Fertilizers and agricultural chemicals sold off when several companies reported significant earnings misses, as fertilizer prices

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continued to normalize after last year's Russian invasion of Ukraine caused significant dislocation and energy price hikes. Supplies remain abundant as end users run down inventories accumulated from last year's panic buying. We also saw grain prices push lower on a better-than-anticipated harvest.

Investment Outlook

Asset Allocation

We continue to have an overweight position in global infrastructure on the basis of relatively attractive valuations and more defensive risk attributes. We remain overweight to natural resource equities as the asset category is leveraged to upside inflation risks and continues to present a compelling value opportunity. Conversely, we maintain an underweight in commodities in order to balance portfolio-level spot commodity price exposure. Our underweight to global real estate securities reflects our ongoing concerns around the interest rate and credit sensitivities of the asset category. From there, we maintain a small underweight in the dedicated gold allocation due to unfavorable valuations and poor momentum, and we continue to hold an overweight in the portfolio's short-duration fixed income sleeve as part of our near-term tactical risk management objectives.

Global real estate

We believe global real estate offers attractive return potential relative to broad equities. An end to central bank tightening tends to be followed by notable strength in listed real estate performance. In addition, cash flows generally remain sound, and we anticipate healthy earnings growth in 2024. We maintain a positive view of U.S. REITs, with a preference for assets with strong secular growth profiles and pricing power. Data centers should continue to benefit from strong demand for cloud computing and, increasingly, artificial intelligence. We see the residential sector benefiting from affordability issues in the for-sale market, which are leading to higher demand for rental housing, especially within single-family homes. Within health care, we have a positive outlook on senior housing, where accelerating occupancy and pricing power are driving revenue growth higher.

We have a somewhat cautious view of European real estate securities, given concerns around growth prospects. Our current positioning is differentiated more by property sector and individual security than by country, based on the common drivers impacting property types across the region. We like logistics and self storage, which tend to be more defensive and have structural growth characteristics. We also favor high-quality continental retail.

We see opportunities in Asia Pacific in countries with more favorable economic backdrops. Within Australia, we favor industrial, self storage and residential developers; we are cautious on retail and offices. In Singapore, we are positive on underlying hospital fundamentals and continue to favor retail, as retail sales remain above pre-pandemic levels, which we believe should lead to an increase in rents. In Japan, we favor developers with strong shareholder return potential, we continue to like hotels, and we are modestly overweight offices. We have been reducing our weighting in Hong Kong on concerns around a China macro slowdown, but we maintain an overweight in domestic-focused retail landlords.

Global listed infrastructure

We remain somewhat defensively positioned as we manage the portfolio for slower economic growth. We maintain our preference for higher-quality businesses that we believe can perform relatively well in a below-trend growth environment. We are also focused on the potential capital needs of individual companies to strengthen their balance sheets.

We believe the credit environment will remain challenged. Although interest rates moved lower in late 2023, our longer-term views remain unchanged. We continue to closely monitor the impact from higher financing costs and tighter financial conditions (including their potential impact on earnings and cash flows) across the infrastructure universe. We remain focused on infrastructure companies that have strong balance sheets, with limited near-term maturities and manageable refinancing schedules.

Persistent inflation and "higher for longer" interest rates may be a headwind for certain sectors. However, most infrastructure businesses can generally pass rising costs along to consumers; as a result, they have tended to perform well during periods of above-average inflation.

Commodities

We believe commodities could see a 10% total return in 2024 as investors may turn here in this period of heightened geopolitical risk, inflation uncertainty, and strong emerging markets economic growth. A continued restocking of inventories in China and the potential end of destocking in developed markets would further support this thesis.

In the near-term, we expect global oil demand to stabilize around current levels as global GDP modestly slows but 2024 has the potential to grow +1.4 million barrels-per-day (BPD) year-on-year, following +2.4 million BPD year-on-year growth in 2023. Saudi Arabia's extended unilateral production cut of one million BPD through year-end helps brings the market into balance. We expect OECD inventories to remain slightly below normal through the first quarter of 2024 assuming the recently announced additional OPEC+ voluntary cuts are adhered to.

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In addition, the risk of military escalation in the Middle East, the possibility of harsher Iranian sanctions, and the U.S. refilling of their SPR (Strategic Petroleum Reserve), should help support oil prices at higher levels (~$80-85/bbl Brent) and keep futures' curves in backwardation. U.S. natural gas storage is expected to remain above its five-year average and head into winter 2024 near a comfortable 3.8 Tcf level and remain elevated throughout 2024 as production ramps up and LNG export growth plateaus.

Gold has been trading with a significant geopolitical risk premium since the October 7th attack on Israel and is trading rich versus what we think underlying real rates and the U.S. dollar would suggest. Continued central bank demand, lower rates, a dovish Fed and a bottoming of investor flows (ETFs) should keep sentiment in gold positive. For gold to continue to trade higher in the near-term we need to see a follow-through in investor buying, especially given the fact that rate cuts are still a ways off and markets will be scrutinizing every data point until then. We expect prices to remain choppy and range bound between $1,900 and $2,100 until investor demand materializes and until the first Fed cut.

Although there are lingering concerns about China's property market and the speed at which China will roll out stimulus, we are cautiously optimistic on the base metals sector given historically low visible inventories and emerging supply issues. While there may not be any big stimulus announcements in the near-term, China's Politburo recently emphasized more proactive fiscal and monetary policy coordination supporting growth in a 4.5-5.5% range next year. We are most constructive on copper as recent supply disruptions will push the 2024 balance into a meaningful deficit, while inventories remain at historically low levels.

While we previously expected ranchers to begin to hold back cows and heifers in the fourth quarter for expansion purposes, this was delayed as drought conditions persisted in the cattle producing areas. We believe this has likely delayed herd expansion until mid-to-late 2024. Based on the biological cattle reproduction cycle and expansion economics, market participants don't expect an increase in beef production to take place until 2025 or 2026. Next year, per capita beef availability, a key indicator of cattle prices, is expected to drop 3.3%, which should support higher cattle prices in 2024.

U.S. soybeans carry-out closed the old crop marketing year at a tight level. Going forward, the size of the Brazil crop will determine if the soybeans stays tight or build to historical highs. The early days of January indicate weather in Brazil has improved, which has prevented analysts to further reduce crop estimates. In February, the market will reset its price discovery focus ahead of U.S. planting decisions and determine whether soybeans need higher prices to gain acres over corn. On Soymeal, we have a bearish view as we expect stocks to start building as demand seasonally decreases, new U.S. plants start to fully operate, and the Argentina crop recovers.

Regarding softs, we continue to be bullish on sugar at current levels as all factors that led prices lower did not materially change the fact there is a significant global deficit that is expected to grow next year. Export capacity limitations out of Brazil and insufficient supply from India and Thailand remain the bullish catalysts. We hold a view that coffee prices will go down as we receive confirmation of a good crop in Vietnam and increased exports. We believe weather concerns in Brazil are overblown and expect large crops for both robusta and arabica.

Natural resource equity

Looking into 2024, the demand environment for energy products remains challenged. Economic slowdown and negative rate of change in service-related spending should put downward pressure on both gasoline and diesel demand, in addition to more refiners coming online globally. This should drive downward pressure on product cracks, which will impact refiners. For oil, the backdrop is more range bound with downward pressure from demand being offset by lower oil volumes from Saudi Arabia and rising geopolitical tensions. Against this backdrop, we prefer energy names that have clean balance sheets, demonstrate better capital efficiency, and return a large amount of free cash flow back to shareholders. Though we are also becoming increasingly focused on inventory life as certain companies are positioning themselves for sustainable cash flow generation well into the next decade. We also see an environment where outsized growth gets rewarded. Therefore, we like several oilfield equipment and services operators that can generate double digit growth.

Within the agribusiness sector, we expect global soy crush margins to decline year-on-year given 1) the potential for El Nino to drive a large Latin American crop; 2) Argentine farmers potentially increasing sales post November elections and; 3) continued U.S. soymeal production from larger crush capacity. In addition, we expect lower commodity grain prices to benefit producer margins and consumers to increasingly favor chicken over beef/pork as cattle and hog supplies tighten due to cycle and regulation (Prop 12 goes into full effect January 1 for hog producers) – keeping beef/pork prices elevated. We also are wary of potential supply additions for fertilizers like potash and nitrogen which could limit upside for certain companies.

The demand environment for metals remains mixed as the expected economic slowdown in developed markets

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(particularly Europe) will only be partially offset by stabilization in China driven by policy easing and an end to destocking. While the Fed may be done hiking, rates are expected to stay high, with the lagged impact of high rates on manufacturing/construction to be felt in 2024. We believe most metals are range bound with the downside being protected by miners' discipline. Against this backdrop, we favor the Chinese-facing commodities (iron ore, coking coal) over consumption-facing commodities (base metals). Uranium remains a key overweight as it is structurally undersupplied and the rhetoric around nuclear renaissance remains positive.

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Sector Diversification

	Q4 2023
Global Real Estate Securities	**25.4%**
Residential	4.8%
Diversified	4.0%
Industrial	3.8%
Retail	3.8%
Health Care	2.4%
Data Centers	2.1%
Self Storage	2.1%
Office	0.7%
Tower	0.7%
Specialty	0.6%
Hotel	0.5%
Commodities	**24.4%**
Energy	7.0%
Agriculture	6.4%
Precious Metals	5.4%
Industrial Metals	4.5%
Livestock	1.2%
Commodities	-0.1%
Global Listed Infrastructure	**17.3%**
Midstream- C Corp	4.9%
Electric	4.4%
Tower	3.4%
Toll Roads	1.4%
Gas Distribution	1.3%
Airports	0.5%
Water	0.4%
Marine Ports	0.3%
Global Infrastructure	0.3%
Passenger Rails	0.3%
Diversified	0.1%
Global Natural Resource Equities	**16.7%**
Energy	6.2%
Metals & Mining	5.1%
Agribusiness	5.0%
Others	0.3%
Short Duration Credit	**11.1%**
USD	11.1%
Gold	**4.0%**
Gold	4.0%
Cash & Other Investments	**1.1%**
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The Bloomberg Commodity Total Return Index is a broadly diversified index that tracks the commodity markets through commodity futures contracts. The index is made up of exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity.

The Dow Jones Brookfield Global Infrastructure Index is a float-adjusted market-capitalization-weighted index that measures performance of globally domiciled companies that derive more than 70% of their cash flows from infrastructure lines of business.

The FTSE EPRA Nareit Developed Real Estate Index- net is an unmanaged market-capitalization-weighted total-return index, which consists of publicly traded equity REITs and listed property companies from developed markets and is net of dividend withholding taxes.

The ICE BofA 1-3 Year U.S. Corporate Index tracks the performance of US dollar-denominated investment-grade corporate debt publicly issued in the US domestic market, with a remaining term to final maturity of less than 3 years.

The S&P Global Natural Resources Index-net includes the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements and is net of dividend withholding taxes.

Gold is represented by the Gold Spot price in U.S. dollars per Troy ounce.

Commodities: Bloomberg Commodity Total Return Index, formerly known as the Dow Jones-UBS Commodity Index, is a broadly diversified index that tracks the commodity markets through commodity futures contracts. The index is made up of exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity. Performance for index prior to August 1998 is hypothetical back-tested, not actual performance, based on the index methodology in effect on the launch date and using actual historical constituent-level data to reconstruct the index's returns.

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