

citizen mint

Guide to

Real Assets



Real assets are anything that is a tangible resource with an intrinsic value tied to its use. This could include such items as real estate, infrastructure, industrial and precious metals, agricultural goods and other natural resources. These assets can provide significant value to investors' portfolios through increased diversification and lower risk given their underlying characteristics.

Benefits of an allocation to real assets in a portfolio include:

- **Inflation protection:** Most real assets increase in market value and/or their earnings rise (either contractually or through regulatory allowance) as inflation increases.
- **Income:** In many cases, real assets produce stable and strong cash flows which usually results in above average distributions (income) to investors.
- **Capital Appreciation:** Both consistent income and growing cash flows can provide strong capital appreciation over time. During periods of higher inflation, capital appreciation is likely to exceed inflation providing strong benefits to a well-diversified portfolio.
- **Diversification:** Given steady cash flows, some real assets can perform well during challenging market environments and are less correlated to broader equity markets.

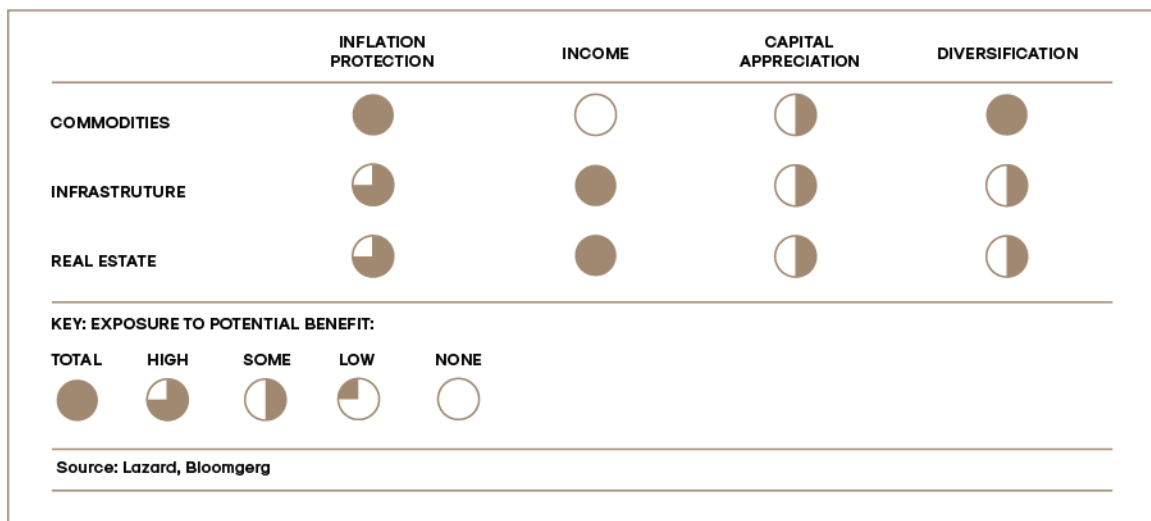
Real Assets Offer Strong Diversification Characteristics

	STOCKS	BONDS	COMMODITIES	AGRICULTURE	ENERGY	INDUSTRIAL METALS	LIVESTOCK	PRECIOUS METALS	ENERGY STOCKS	REITS	INFRASTRUCTURE	LINKERS	MLPs	NATURAL RESOURCES
STOCKS														
BONDS	-0.01													
COMMODITIES	0.52	-0.03												
AGRICULTURE	0.19	-0.02	0.40											
ENERGY	0.50	-0.02	0.97	0.26										
INDUSTRIAL METALS	0.37	-0.08	0.47	0.21	0.37									
LIVESTOCK	0.20	0.00	0.33	0.16	0.28	0.15								
PRECIOUS METALS	0.15	0.41	0.24	0.16	0.18	0.32	0.15							
ENERGY STOCKS	0.77	0.01	0.70	0.25	0.67	0.39	0.27	0.20						
REITS	0.70	0.33	0.40	0.17	0.40	0.22	0.18	0.26	0.60					
INFRASTRUCTURE	0.78	0.24	0.55	0.21	0.53	0.34	0.26	0.29	0.76	0.80				
LINKERS	0.24	0.69	0.30	0.16	0.28	0.22	0.10	0.54	0.32	0.42	0.48			
MLPs	0.67	0.16	0.60	0.21	0.58	0.34	0.32	0.21	0.84	0.61	0.79	0.41		
NATURAL RESOURCES	0.80	0.03	0.71	0.26	0.68	0.45	0.27	0.29	0.97	0.61	0.79	0.36	0.84	

From December 2011 to 30 December 2021
Daily data in US dollars

Equities = S&P 500 Total Return Index; Bonds = BB Barclays US Agg Total Return Value Unhedged USD; Commodities = S&P GSCI Total Return Index; Agriculture = S&P GSCI Agriculture Total Return Index; Livestock = S&P GSCI Livestock Total Return Index; Precious Metals = S&P GSCI Precious Metals Total Return Index; Industrial Metals = S&P GSCI Industrial Metals Total Return Index; Energy = S&P GSCI Energy Total Return Index; Energy Stocks = S&P Energy Sector Total Return Index; REITs = FTSE NAREIT All Equity Total Return Index; Infrastructure = DJ Brookfield Global Infrastructure Index Total Return; Linkers = BB Barclays Global Inflation-Linked Total Return Index Value Unhedged USD; MLPs = Alerian MLP Index; Natural Resources = S&P North America Natural Resources Sector Total Return Index
Source: Lazard, Bloomberg

Dynamic Allocation Can Exploit a Range of Potential Benefits in Real Assets



The most common real assets are infrastructure, real estate, and commodities. The chart above shows the different characteristics of each one of these assets. At Citizen Mint, we focus specifically on infrastructure (solar, wind, batteries) and real estate (affordable housing).

Review of Investable Opportunities

Let's dive into the different opportunities to discuss the individual characteristics of each one of these investments.

Infrastructure



Infrastructure is a large asset class with a variety of investments that have the following characteristics:

- Essential or necessary product or service
- Long useful lives
- Monopoly/quasi-monopoly market position
- Operate in regulated environments/or are less affected by economic cycles
- Cash flow and earnings vary minimally in multiple environments

Infrastructure assets examples:



Energy

- Power generation
- Transmission
- Distribution
- Renewables



Water

- Water & waste water networks
- Desalination plants



Transport

- Ports
- Rail
- Airports
- Roads
- Bridges
- Parking



Comms

- Cable networks
- Telecom lines
- Towers
- Satellites



Social

- Hospitals
- Prisons
- Schools
- Courts
- Public Housing

Advantages of infrastructure investments:

Portfolio Diversification & Downside Protection:

In general, infrastructure assets have a low correlation to stocks and bonds. Further, this asset class can reduce volatility in investor portfolios during economic turmoil as a result of these assets stable earnings stream throughout economic cycles.

Income Potential:

Given the highly predictable cash flows of infrastructure assets, these investments usually provide strong income potential.

Growth:

The global infrastructure market is expected to experience one of the greatest capital investment cycles ever given the transition from fossil fuels to renewable energy sources to address climate change. Additionally, countries are seeking energy security as a result of the war in Ukraine and dependence on foreign powers for energy needs. Other growth opportunities include telecom and water upgrades across the globe. In most cases, these investments are not dependent on economic cycles.



Risk:

Political and Regulatory

Regulations and changes to the tax code can negatively affect the cash flows and valuations of these assets. Additionally, while rare, these assets have been nationalized, or taken over by governments.

Technical & Operational Capabilities:

Owners and operators must be highly skilled given the complexity of running these assets.

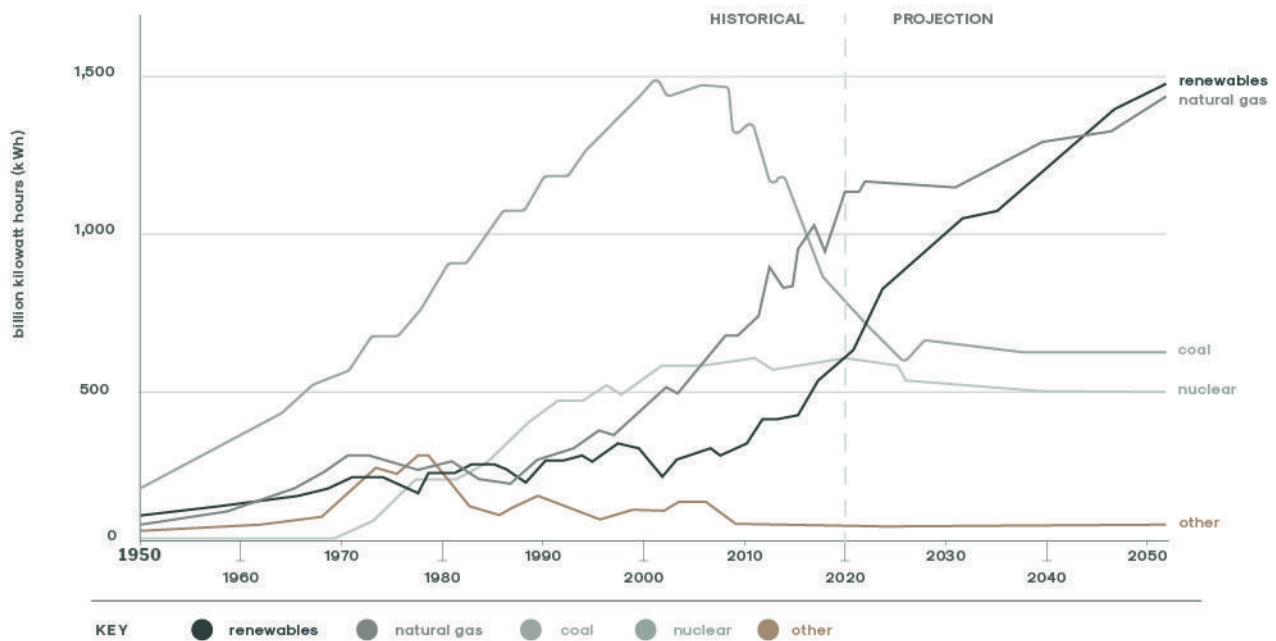
Sustainability

Citizen Mint believes investing in renewable energy infrastructure is a multi-decade opportunity. The majority of these investments will be in wind and solar projects which will be the greatest source of new power generation as noted in the chart below. While previously expensive to build, the price for wind-generated energy has dropped 70% per megawatt hour (MWh) and 90% for solar over roughly the last decade, reducing the need for government subsidies while also accelerating plans of large electric utilities to switch from fossil fuels (oil and coal) to renewables

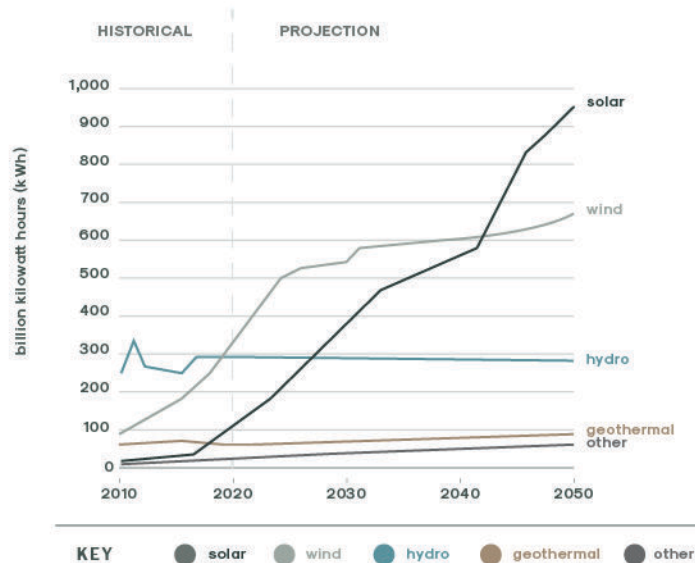
Anticipated shift to renewable energy 2020-2050

The following chart shows the dramatic projected increase in renewable energy versus other sources of electricity generation. As you can see, renewables are expected to roughly triple between 2020 and 2030.

ANNUAL US ELECTRICITY GENERATION (PAST & FUTURE PROJECTS)



PROJECTED RENEWABLE ENERGY SEGMENTS



The chart to the left displays the projected growth of several renewable power sources over the next 10 years. Solar and wind will be the main new sources of power with hydro expected to decrease slightly over this time.

Real Estate



Real estate is one of the most unique assets classes in the world given the distinctness of each property type. The four main property types for real estate include land, residential, commercial and industrial with numerous sub-categories for each. Characteristics of real estate properties include:

Distinctive:

Properties have unique characteristics and no two properties are the same.

Location & Use:

Real estate values are highly influenced by their location and ultimate use.

Scarce

Land is a scarce resource.

Permanent:

Real estate is a physical, permanent asset.

Types of Real Estate



Land

- Undeveloped Raw Land
- Farms & ranches
- Timberland
- Orchards
- Recreational parcels for camping, hunting & fishing
- Lots in subdivision



Residential

- Single Family Homes
- Condominiums
- Townhomes
- Mobile homes



Commercial

- Office space including buildings, office parks & medical centers
- Retail
- Self-storage
- Multi-family apartments



Industrial

- Manufacturing
- Refrigerated storage
- Storage Warehouses & Distribution Centers
- Parking lots & garages
- Data server farms

Advantages of real estate investments:

Inflation Hedge:

During times of rising prices, rents and property values tend to rise.

Defensive:

Certain real estate assets can be highly defensive during times of economic stress. These usually include mobile home parks, affordable/workforce multi-family housing and self-storage. More affordable real estate can be highly attractive during times of job loss or reduced wages making it an attractive investment during tough economic cycles.

Attractive Distributions:

Distributions to investors from certain real estate such as residential, commercial and industrial can be attractive and usually ranges between 4-7% a year.



Risk: Interest Rate Risk:

Increases in interest rates can hurt the returns of real estate given the greater burden of interest cost on the properties.

Supply vs. Demand Risk:

Overbuilding of certain real estate assets may hamper future price increases and could negatively affect the valuation of an asset. Additionally, economic slowdowns could reduce the demand of certain real estate assets (i.e. less warehouses needed given waning e-commerce growth).

Sustainability

In real estate, Citizen Mint is focused on opportunities in the affordable housing space. Underinvested in for decades despite strong growth in demand, we believe that quality affordable housing is both a prime investment opportunity as well as a way to help alleviate the US housing shortage. Our focus at Citizen Mint is finding those investments in the private markets that fund affordable housing – either through debt or equity – that are most likely to deliver a reasonable return on investment as well as quality housing for families.

FOR PERSPECTIVE:

SOME

44 MILLION



U.S. HOUSEHOLDS ARE RENTERS, OF THESE

80%

HAVE HOUSEHOLD INCOME BETWEEN \$36,000 & \$60,000 A YEAR

(SOURCE: NATIONAL MULTIFAMILY HOUSING COUNCIL)

ABOUT

25%

OF U.S. HOUSEHOLDS WERE ALREADY LIVING IN SOME TYPE OF AFFORDABLE HOUSING IN 2019

AND WE BELIEVE THIS NUMBER HAS

INCREASED



SINCE THEN DUE TO A SURGE IN RENTS THE PAST TWO YEARS

(SOURCE: CENSUS BUREAU 2019)



FOR EVERY

100

LOW-INCOME HOUSEHOLDS, ONLY

37

AFFORDABLE HOMES ARE AVAILABLE & NO SINGLE STATE HAS AN ADEQUATE SUPPLY.

(SOURCE: NATIONAL LOW INCOME HOUSING COALITION (NLIHC))

Commodities



Commodities are raw materials and agriculture products that are traded globally based on set prices given supply versus demand of the product. The six main categories for commodities are as follows:



Energy

- Oil
- Natural Gas
- Byproducts



Base Metal

- Aluminum
- Copper
- Lead
- Nickel
- Zinc



Precious Metals

- Gold
- Silver



Agricultural

- Corn
- Soybeans
- Soybean Meal
- Soybean Oil
- Wheat



Softs

- Cocoa
- Coffee
- Cotton
- Sugar



Live Stock

- Cattle
- Hogs

Advantages of real estate investments:

Diversification:

Commodities can have low correlation to other assets classes and can even have low correlation to each other.

Inflation Hedge:

Commodities usually perform well during period of inflation given the physical nature of the asset.



Risk:

Supply vs. Demand Dynamics:

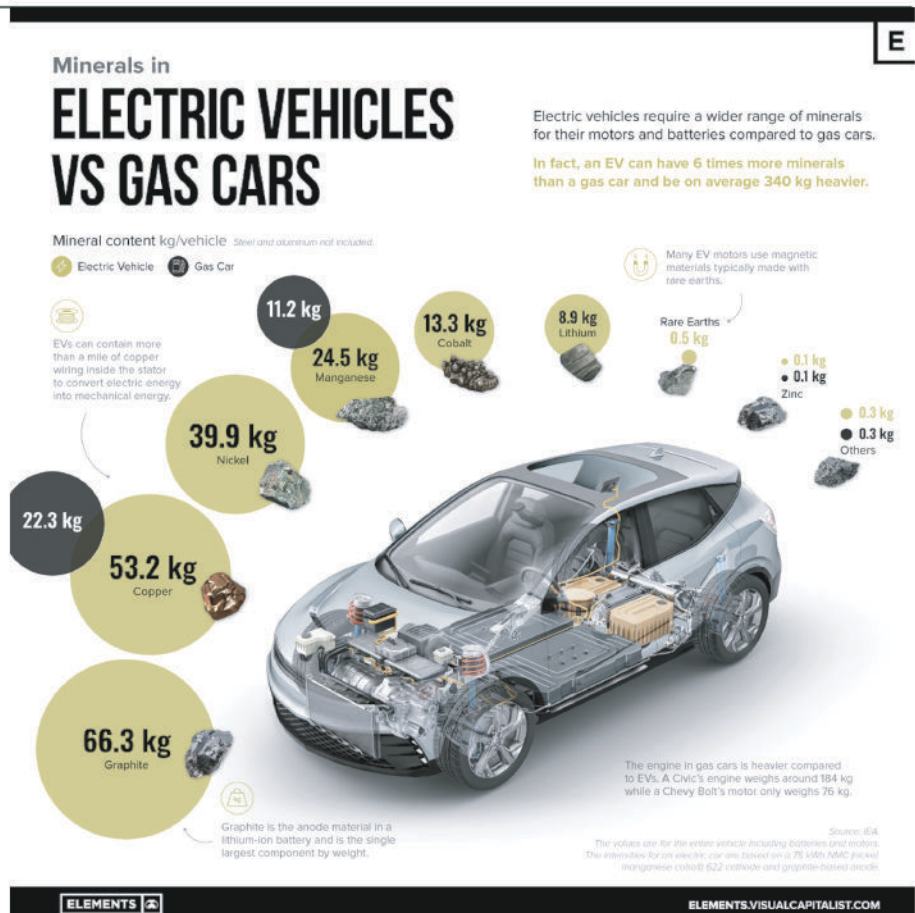
Supply and demand are the main drivers of commodity pricing. As such, global slowdowns can dramatically affect the prices of these goods. This was most apparent in the slowdown in China infrastructure spending which coincided with new commodity supply coming online leading to dramatic downward pressure on most base metal commodities.

Price Volatility:

Prices of commodities can rise and fall dramatically based on the market environment and global macro events.

Sustainability

Commodities will be a necessary resource to reduce our carbon usage over time. As noted in the graphic to the right, it takes significant copper, nickel, graphite and other metals to power our new transportation systems such as electric cars and buses.



Natural Resources



Investments in natural resources encompasses opportunities that in most cases are land or water related. Ultimately, the value of natural resources is less standardized than commodities and is more dependent on how they are processed and marketed. Some examples include:

Timberland:

Value of timberland is primarily in the harvest and sale of trees. Given this is a renewable resource that can grow back over time and increase in value with this growth, it has low correlation with public markets. There has further been the creation of timberland investment management organizations (TIMOs) that create both environmental value and financial return for investors through the monetization of positive environmental impact. This includes the sale of conservation easements to the government or conservation organizations, carbon credit sales and water rights sales to the environmental commodity market.

Farmland & Grassland:

Investing in land, crop and livestock management. While cash flows can be variable for crop production, there has been strong returns shown through the introduction of higher value organic fruit and vegetable production.

Fisheries

Given overfishing across the globe, there has been the advent of new practices and investments that promote sustainable fishing practices.

Advantages and risks of natural resource investments:

Natural resources can benefit from rising inflation and demand due to global economic and population growth. They can also act as a store of value given the physical hard physical properties of these assets. Risks to the asset include market prices for the good as well as the ability of management teams to operate these assets efficiently.

Summary

Citizen Mint believes real assets can be a great tool for investors to increase portfolio diversification, reduce risk and add growth opportunities to their portfolios. We believe that the best opportunities are those that create positive societal or environmental outcomes as well as financial return.

[Learn more about opportunities to invest in real assets here](#)

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