

# All Aboard the Bubble!

Stockholm (HedgeNordic) – One distinguishable trend in the institutional investor universe has been the gradual but clear shift toward increased exposure to real assets such as real estate and infrastructure. Real estate experts state that this reallocation of assets represents a significant tendency among many pension funds, sovereign wealth funds, endowments and foundations.

Some even claim that the rediscovery of the potential of real assets represents one of the most noticeable themes of this decade within the institutional investment community. The growing appeal of real estate and infrastructure has been challenging the traditional mix of equities and bonds within pension fund and private investor portfolios. Fixed-income investments offer insufficient yields, while the upside potential of equities remains subdued in many markets due to modest economic growth and fully-priced stock market valuations. As a result, institutional investors are constantly searching for sources of long-term income, simultaneously seeking protection from future increases in market volatility and impending inflation instigated by global quantitative easing programs.

A series of studies conclude that increased exposure to real assets can have a beneficial effect on a traditional portfolio by reducing volatility and increasing returns. For instance, real estate specialist CenterSquare Investment Management studied the effects of a 20%-allocation to real assets on a traditional 60/40 portfolio (with 60% equity and 40% bond allocation) over the period of 1995 to 2015, with their study showing that a portfolio with 10% of investable assets in private real estate, 5% in listed real estate and 5% in listed infrastructure exhibited both an annual return and a volatility of 7%. This compares to the return of less than 6% and volatility of over 9% for the traditional 60/40 portfolio. Given the local nature of real assets, different real asset categories normally exhibit low correlations both with public financial markets and with one another. In addition, the long-term nature of real estate investing matches up well with the long-term liabilities of many institutional portfolios.

This article is part of our special report on real estate and infrastructure. Read the rest of the article and more about the industry [here](#).