



# Due Diligence Update: Real Assets



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**With inflation, interest rates, and concern over the dollar, Arnerich Massena's Research Team is focused on finding ways to incorporate real assets into portfolios. Real assets are a broad category with a variety of different opportunities that offer additional portfolio diversification. Recently, Co-CEO and Chief Investment Officer Bryan Shipley, CFA, CAIA, and Research Analyst Nick Buckley, CFA, visited Denver, Colorado to meet with several real asset managers.**

## Why real assets?

As inflation rises, keeping pace with it becomes more challenging. How can investors not only preserve and grow their wealth, but make sure that they are retaining the value of their wealth over time? If a portfolio grows by 6 percent annually but inflation is increasing at 8 percent annually, that portfolio is losing value. As investment advisors, our goal is to build strategies that seek to keep pace with inflation and grow in actual value.

With the recent increases in inflation and interest rates, integrating real assets into client portfolios has become more attractive and interesting as a strategy. Real assets include a broad basket of tangible assets like real estate, energy, infrastructure, ports — airports and marine ports — timber, shipping, agriculture and farmland, and more. (While commercial real estate may technically be in that category, that is an area outside of our current exploration of real asset opportunities.)

## Vehicle structure

The structure of the investment vehicle is critical when investing in real assets. There are many investment instruments that are denoted as real asset investments, but don't actually own any of the tangible assets in the portfolio. Instead, they gain exposure through things like derivatives, options, and futures. In these cases, you are purchasing a financial asset, not real assets. However, purchasing real assets themselves can be challenging due to the loss of liquidity. Real estate owners, for instance, understand that you can't easily liquidate that asset. Owning real assets directly can be very illiquid.

## Interval funds

For this reason, we are exploring the use of interval funds as a structure for gaining exposure to real assets. Interval funds have greater flexibility than mutual funds to purchase illiquid assets, while providing greater liquidity than holding those assets privately or through other vehicles. Though interval funds still have some limits on liquidity, investors are typically able to sell a portion of their shares at established intervals.

The team is also looking at more traditional investment vehicles, including funds of funds and private equity.

## Manager due diligence

Look for more information coming soon as we complete the due diligence process on potential real asset managers. Once the Research Team reaches the approval stage, advisors will begin exploring how real assets might fit into individual client portfolios, based on their objectives and unique situation.



While in Denver, they visited the Broncos' Empower Field Stadium and took in a Colorado Rockies game.

