



CRAFTING A LIQUID REAL ASSETS STRATEGY FOR PRIVATE CAPITAL COMMITMENTS

How can we make an allocation to a liquid, daily traded strategy that mimics the performance of private real assets?

The Client

A Californian county's \$3 billion defined benefit pension plan.

The Challenge

Gaining exposure to infrastructure asset class without the complexity associated with private investments.

Our Approach

Passive strategies' low costs and high liquidity make them the best option.

This Californian county's \$3 billion employees' retirement fund was advised by a consultant with over \$1.4 trillion in assets under advisement for a variety of institutional clients, including defined benefit pensions, public funds, and endowments and foundations.

Tripling the infrastructure exposure through public markets

The client wished to increase its strategic asset allocation to infrastructure from 2% to 7.5%. Yet doing so would take time and be complex — especially once the search for and hiring of new private strategies was factored in. Even once new managers are selected and hired, the funding of private strategies and return of capital occurs over time through commitment, redemption periods, and capital lock-ups. How then could the client find a public market proxy that would be liquid and immediately contribute similar return and risk characteristics?

The client hired a well-known consultant to help with this challenge and this consultant selected Northern Trust Asset Management (NTAM) in 2019 to create a bespoke, multi-asset solution.

Opting for a multi-asset, passive solution to replicate private infrastructure

While the client had been using U.S. REITs as a public market proxy for private infrastructure, they had an unacceptably high level of volatility compared with private infrastructure for this increase in allocation. NTAM pointed it out to the consultant that public infrastructure indices were not perfect either, as they only partially achieve private infrastructure's qualities of uncorrelated returns, low risk and inflation protection. For this reason, NTAM suggested to add a treasury inflation-protected securities (TIPS) exposure to replicate the inflation protection offered by infrastructure assets such as toll roads or utilities. NTAM created a model and conducted analysis to come up with recommendation to allocate between public infrastructure and TIPS with regular rebalancing whenever the allocation drifted due to market movement from the determined mix.

After discussions between the consultant and NTAM's multi-asset team, they decided that passive strategies would be more suitable than active due to their lower costs and higher liquidity. In terms of vehicle, the exchange-traded fund and collective investment trust were combined into a single strategy to be an efficient structure.

Our Solution

A broad-based infrastructure ETF and low-cost TIPS fund.

A bespoke proxy for private infrastructure

NTAM developed an infrastructure, TIPS, and cash custom multi-asset solution, with rebalancing whenever the infrastructure or TIPS allocation was above or below its target.

We chose the Flexshares STOXX Global Broad Infrastructure ETF to provide the infrastructure exposure after comparing it with other ETFs. The STOXX index was viewed as the better option because it invests in a broad range of companies deriving at least 50% of their revenues from infrastructure's five super sectors, as well as government outsourcing and communications. Other competitors primarily or solely invested in energy, utilities, and transportation sectors. What's more, the STOXX index was less volatile than some of its competitors.

The NT Collective TIPS Index Lending Fund was selected for TIPS exposure due to its low cost, daily liquidity and low tracking error.

While this combination was more expensive than other competitor offerings the consultant was also considering, the consultant believed that NTAM's offering provided a better proxy for private infrastructure's return and risk.

Objectives achieved

In terms of benefits, the client achieved what it set out to: creating an effective public market proxy for infrastructure, implemented through efficient vehicles. It is now able to incorporate a return and risk profile similar to private infrastructure.

The Benefits

An effective liquid proxy, efficiently implemented.

A success for our client

The client's initial investment was \$217 million. The consultant liked the solution so much that it is offering this Multi Asset solution consisting of Infrastructure ETF and TIPS in to other clients as a public market proxy or to smaller clients that only invest in public markets due to the complexity and liquidity demands of private market investments.

The Result

Investment performance in line with expectations.

ABOUT NORTHERN TRUST ASSET MANAGEMENT

Northern Trust Asset Management is a global investment manager that helps investors navigate changing market environments, so they can confidently realize their long-term objectives.

Entrusted with \$1.0 trillion in assets,* we understand that investing ultimately serves a greater purpose. We believe investors should be compensated for the risks they take — in all market environments and any investment strategy. That's why we combine robust capital markets research, expert portfolio construction and comprehensive risk management to craft innovative and efficient solutions that deliver targeted investment outcomes.

As engaged contributors to our communities, we consider it a great privilege to serve our investors and our communities with integrity, respect and transparency.

*AUM as of June 30, 2022. Article published as of June 30, 2022. For more recent AUM, please visit northerntrust.com.

How helpful was this?



northerntrust.com

IMPORTANT INFORMATION

For Use with Institutional Investors Only. Not For Retail Use.

The case studies presented are intended to illustrate products and services available at Northern Trust. They do not necessarily represent experiences of other clients nor do they indicate future performance. Individual results may vary. The information contained herein is intended for use with current or prospective clients of Northern Trust Investments, Inc. The information is not intended for distribution or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. Northern Trust and its affiliates may have positions in and may effect transactions in the markets, contracts and related investments different than described in this information. This information is obtained from sources believed to be reliable, and its accuracy and completeness are not guaranteed. Information does not constitute a recommendation of any investment strategy, is not intended as investment advice and does not take into account all the circumstances of each investor. Opinions and forecasts discussed are those of the author, do not necessarily reflect the views of Northern Trust and are subject to change without notice.

This report is provided for informational purposes only and is not intended to be, and should not be construed as, an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Recipients should not rely upon this information as a substitute for obtaining specific legal or tax advice from their own professional legal or tax advisors. References to specific securities and their issuers are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such securities. Indices and trademarks are the property of their respective owners. Information is subject to change based on market or other conditions.

All securities investing and trading activities risk the loss of capital. Each portfolio is subject to substantial risks including market risks, strategy risks, adviser risk and risks with respect to its investment in other structures. There can be no assurance that any portfolio investment objectives will be achieved, or that any investment will achieve profits or avoid incurring substantial losses. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Risk controls and models do not promise any level of performance or guarantee against loss of principal. Any discussion of risk management is intended to describe Northern Trust's efforts to monitor and manage risk but does not imply low risk.

The NT Collective TIPS Index Lending Fund is a collective trust fund for which Northern Trust Investments, Inc. serves as trustee. The fund is not a mutual fund and is privately offered. Prospectuses are not required and fees and expenses are not available in local publications. Information on fees and expenses can be obtained from Northern Trust Investments, Inc. Principal value and investment return will fluctuate, so that a participant's units when redeemed may be worth more or less than the original investment. Fund participants and potential participants are strongly encouraged to review the fund's declaration of trust and fund declaration for additional information regarding the operation and investment objectives of the fund.

Past performance is not guarantee of future results. Performance returns and the principal value of an investment will fluctuate. Performance returns contained herein are subject to revision by Northern Trust. Comparative indices shown are provided as an indication of the performance of a particular segment of the capital markets and/or alternative strategies in general. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index. Net performance returns are reduced by investment management fees and other expenses relating to the management of the account. Gross performance returns contained herein include reinvestment of dividends and other earnings, transaction costs, and all fees and expenses other than investment management fees, unless indicated otherwise. For additional information on fees, please refer to Part 2a of the Form ADV or consult a Northern Trust representative.

Forward-looking statements and assumptions are Northern Trust's current estimates or expectations of future events or future results based upon proprietary research and should not be construed as an estimate or promise of results that a portfolio may achieve. Actual results could differ materially from the results indicated by this information.

If presented, hypothetical portfolio information provided does not represent results of an actual investment portfolio but reflects representative historical performance of the strategies, funds or accounts listed herein, which were selected with the benefit of hindsight. Hypothetical performance results do not reflect actual trading. No representation is being made that any portfolio will achieve a performance record similar to that shown. A hypothetical investment does not necessarily take into account the fees, risks, economic or market factors/conditions an investor might experience in actual trading. Hypothetical results may have under- or over- compensation for the impact, if any, of certain market factors such as lack of liquidity, economic or market factors/conditions. The investment returns of other clients may differ materially from the portfolio portrayed. There are numerous other factors related to the markets in general or to the implementation of any specific program that cannot be fully accounted for in the preparation of hypothetical performance results. The information is confidential and may not be duplicated in any form or disseminated without the prior consent of Northern Trust.

This information is intended for purposes of Northern Trust marketing of itself as a provider of the products and services described herein and not to provide any fiduciary investment advice within the meaning of Section 3(21) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Northern Trust is not undertaking to provide impartial investment advice or give advice in a fiduciary capacity to the recipient of these materials, which are for marketing purposes and are not intended to serve as a primary basis for investment decisions. Northern Trust and its affiliates receive fees and other compensation in connection with the products and services described herein as well as for custody, fund administration, transfer agent, investment operations outsourcing and other services rendered to various proprietary and third party investment products and firms that may be the subject of or become associated with the services described herein.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc. Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K, NT Global Advisors, Inc., 50 South Capital Advisors, LLC, Belvedere Advisors LLC, Northern Trust Asset Management Australia Pty Ltd, and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company.

© 2022 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.

I-112522-2300343-112523