

Albourne Real Return Review

FY June 2015

KRS Review

Universe and Benefits

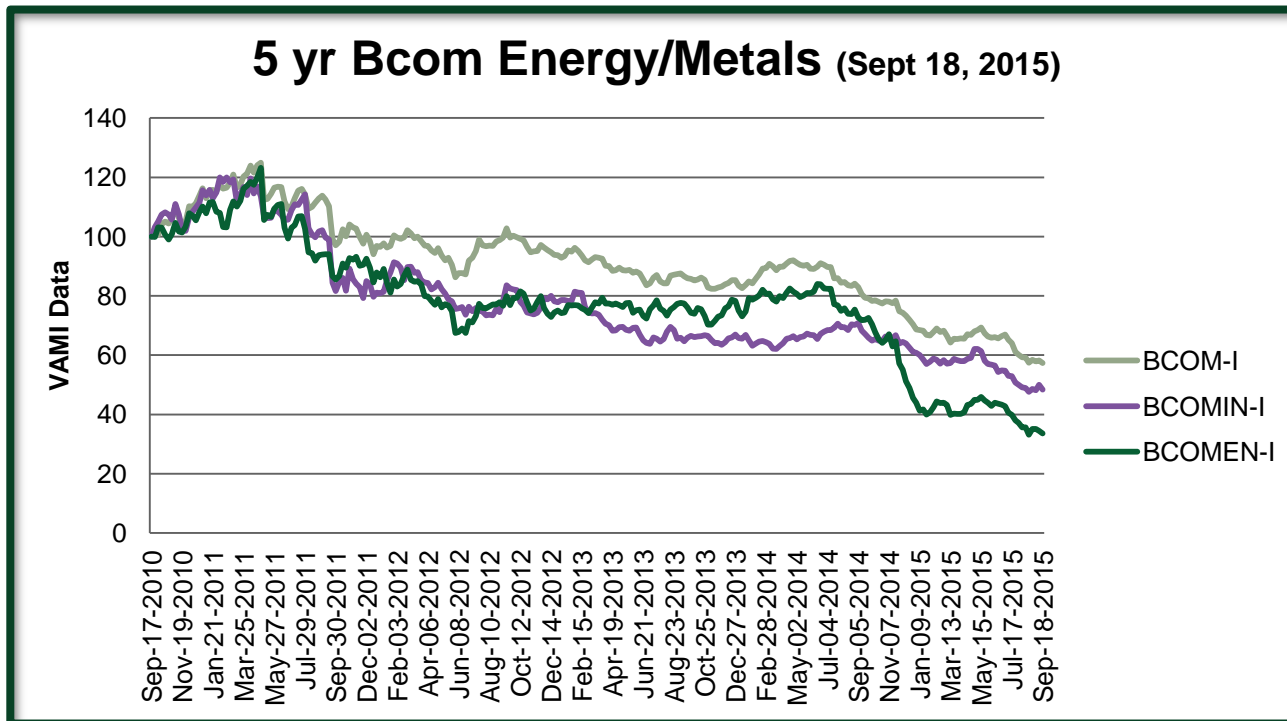


	Liquid Real Assets	Illiquid Real Assets
Definition & Characteristics	Financial instruments that provide immediate exposure to physical assets	Investments in or backed by physical assets, other than commercial or residential real estate <ul style="list-style-type: none"> • Durable, immobile, tangible • Finite in supply • Useful to people • Unique in location and composition
Typical benefits to portfolio	<ul style="list-style-type: none"> • Diversification • Inflation Protection • Return Enhancement • Tactical 	<ul style="list-style-type: none"> • Diversification • Inflation Protection • Yield Generation • Return Enhancement
Risk & return characteristics	<ul style="list-style-type: none"> • Commodities have historically generated equity-like returns • High volatility 	<ul style="list-style-type: none"> • Viewed by many as a fixed income substitute due to current income and reduced volatility, but with the expectation that asset values will participate with inflation

From an institutional Pension perspective, the attraction to Real Assets may include:

- Diversification benefits (risk reduction)
- Cash flow (yield)
- Inflation participation (liability match)
- Tactical opportunity (market timing)
- Community stewardship (SRI)

Broader Market History (5 Yrs)



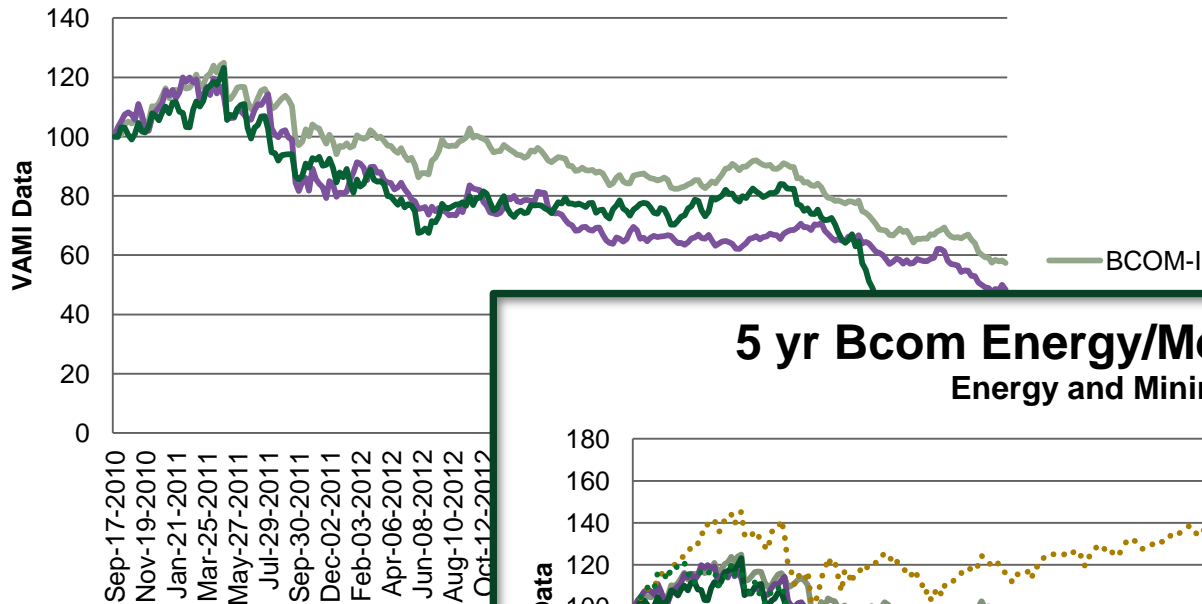
Past performance may not be indicative of future results. An investor is not guaranteed to make a profit or to avoid incurring a loss.

Bloomberg, GlobeIndex

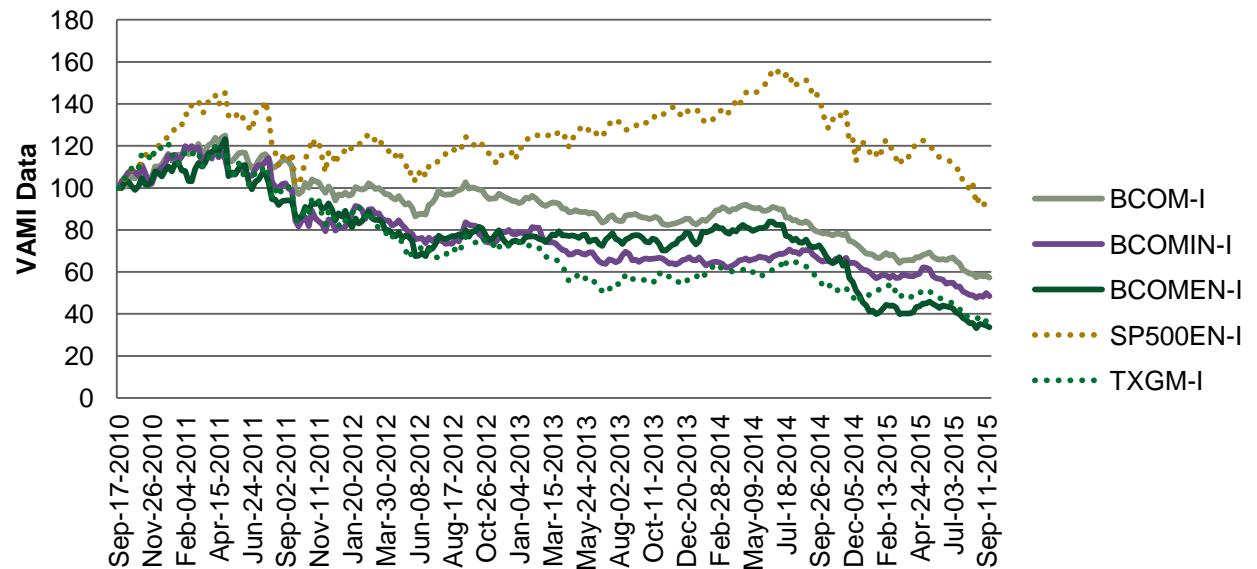
- Investors naturally consider commodities when they think of Real Assets and Inflation.
- AND most early work in the space centered on the relationship between commodities and inflation.
- More recently alternative strategies have emerged which capture the characteristics without slippage and broaden the spectrum of assets with similar profiles.
- NOW inflation participation and real returns are key metrics

Broader Market History (5 Yrs)

5 yr Bcom Energy/Metals (Sept 18, 2015)



5 yr Bcom Energy/Metals (Sept 18, 2015) Energy and Mining Index



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Real Assets and Diversification

Correlations are an indication of potential for risk reduction in the broader portfolio context. However it is not the final say on risk. Without an understanding of the trends and more importantly the probable cause of the trends, it is simply a number.

18 -Year Correlations
(2Q1997 - 2Q2015)*

	Timberland	Farmland	Commodities	US Equities	Global Equities	Global Bonds	US TIPS	US Inflation (CPI-U)
Timberland	1.00	0.66	-0.10	0.02	0.05	0.09	-0.04	-0.10
Farmland	0.66	1.00	-0.12	0.14	0.16	-0.10	-0.20	-0.22
Commodities	-0.10	-0.12	1.00	0.22	0.32	-0.25	0.28	0.61
US Equities	0.02	0.14	0.22	1.00	0.97	-0.30	-0.30	0.13
Global Equities	0.05	0.16	0.32	0.97	1.00	-0.31	-0.25	0.17
Global Bonds	0.09	-0.10	-0.25	-0.30	-0.31	1.00	0.58	-0.35
US TIPS	-0.04	-0.20	0.28	-0.30	-0.25	0.58	1.00	0.20
US Inflation (CPI-U)	-0.10	-0.22	0.61	0.13	0.17	-0.35	0.20	1.00

5 -Year Correlations
(2Q2010 - 2Q2015)

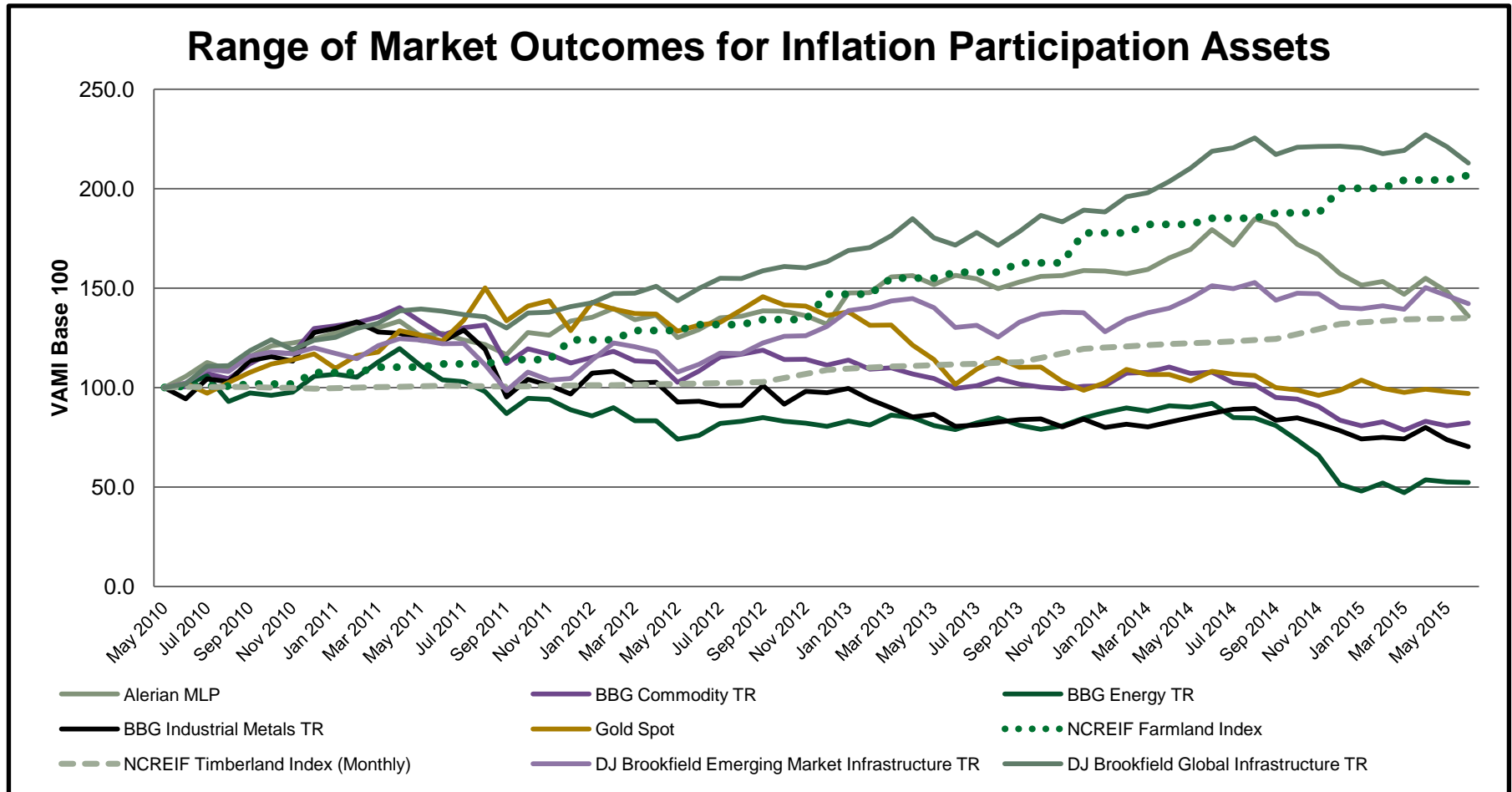
	Timberland	Farmland	Commodities	US Equities	Global Equities	Global Bonds	US TIPS	US Inflation (CPI-U)
Timberland	1.00	0.65	-0.39	0.07	0.06	0.09	-0.25	-0.54
Farmland	0.65	1.00	-0.04	0.42	0.35	-0.17	-0.20	-0.24
Commodities	-0.39	-0.04	1.00	0.53	0.61	-0.27	0.11	0.62
US Equities	0.07	0.42	0.53	1.00	0.96	-0.32	-0.32	0.21
Global Equities	0.06	0.35	0.61	0.96	1.00	-0.28	-0.26	0.26
Global Bonds	0.09	-0.17	-0.27	-0.32	-0.28	1.00	0.72	-0.27
US TIPS	-0.25	-0.20	0.11	-0.32	-0.26	0.72	1.00	0.14
US Inflation (CPI-U)	-0.54	-0.24	0.62	0.21	0.26	-0.27	0.14	1.00

*uses longest common time frame

Based on Albourne Analytics

Data NCREIF, S&P, and Bloomberg

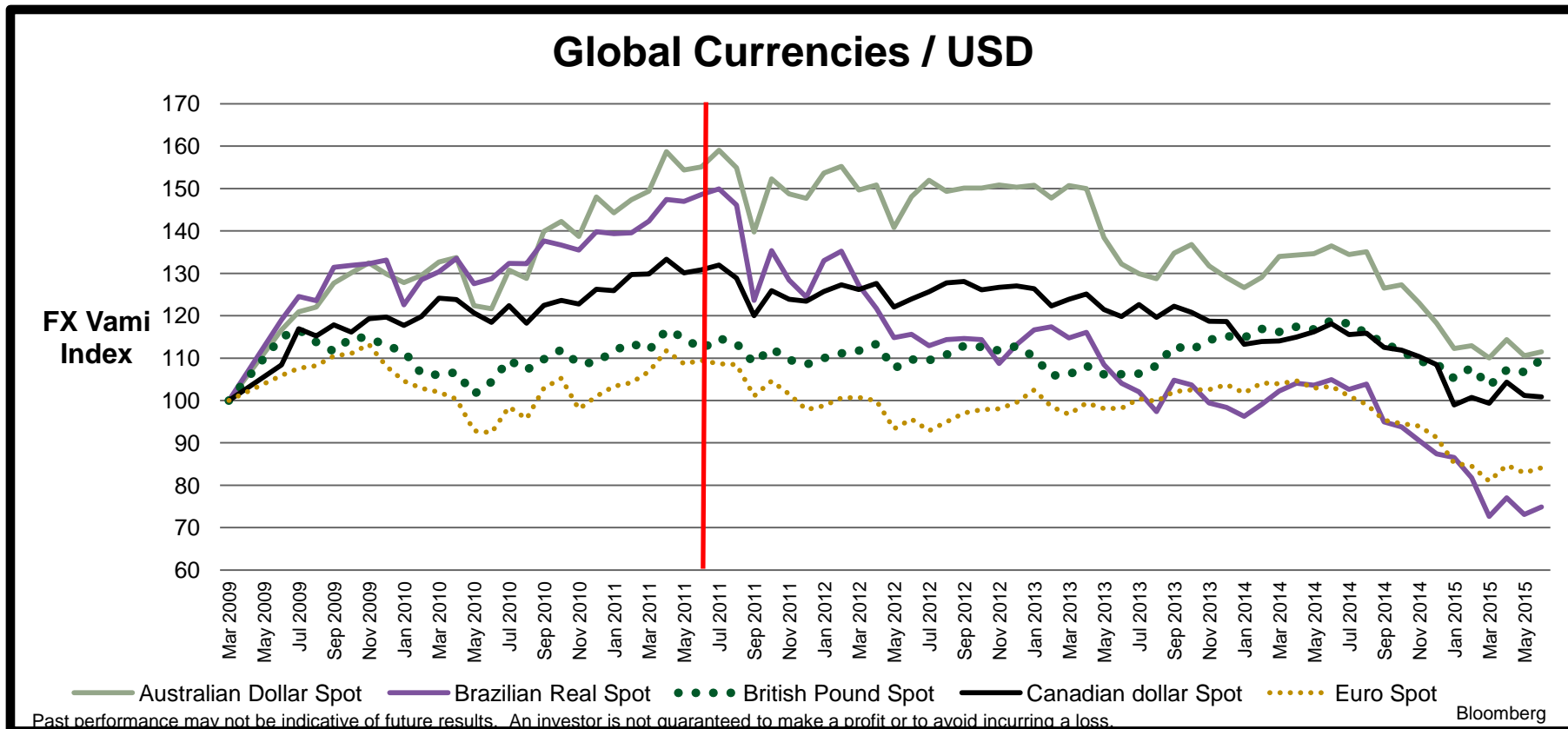
Diversification and Inflation Participation



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Bloomberg, GlobeIndex

Currency Impact



The strengthening US dollar has had a dramatic impact on the commodity valuations and also non-domestic lower volatility real asset strategies in emerging economies. Typically, the high volatility impact of foreign exchange reverts over longer cycles. Thus international assets have performed well in local dollar terms but have been overwhelmed by the currency effect.

Fiscal Year 2015 Market Review

Index	2015 FY	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Alerian MLP	-24.28%	-7.45%	-6.64%	-13.51%	1.34%
S&P MLP	-20.85%	-6.48%	-4.51%	-13.16%	2.06%
NCREIF Farmland Index	11.65%	1.16%	2.08%	6.56%	1.45%
NCREIF Timberland Index	10.20%	0.51%	1.75%	6.20%	1.47%
BBG Commodity TR	-23.71%	4.66%	-5.94%	-12.10%	-11.83%
BBG Energy TR	-43.20%	10.92%	-8.20%	-36.57%	-12.06%
BBG Industrial Metals TR	-19.38%	-5.31%	-5.32%	-6.21%	-4.12%
BBG Agriculture TR	-14.55%	8.29%	-8.82%	5.60%	-18.05%
Gold Spot	-10.29%	-0.53%	-1.09%	-1.30%	-7.62%
DJ Brookfield Emerging Market Infrastructure TR	-5.99%	2.00%	-0.62%	-2.56%	-4.81%
DJ Brookfield Global Infrastructure TR	-2.72%	-2.87%	-0.95%	1.92%	-0.79%
S&P Global Infrastructure TR	-5.15%	-1.81%	-0.80%	1.20%	-3.78%
ML US T Bills	0.02%	0.01%	0.00%	0.00%	0.01%
MSCI World	-0.45%	-0.30%	1.82%	0.66%	-2.58%
ML US HY Bonds	-0.55%	-0.05%	2.54%	-1.06%	-1.92%
ML Global Govt. Bond	-7.88%	-1.61%	-1.86%	-1.14%	-3.50%
MSCI EM Daily Net TR	-5.12%	0.69%	2.24%	-4.50%	-3.49%
HFRI FoF Composite	3.86%	0.11%	2.50%	0.95%	0.28%

2015 FY returns are cumulative returns as of the end of June 2015. Returns calculated using data available as of 30 June 2015.

Source: Hedge Fund Research, Inc. www.hedgefundresearch.com

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Source: Bloomberg, S&P, Dow Jones, NCREIF

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Fiscal Year 2015 Market Review

- The lack of meaningful growth outside of the US has failed to stabilize commodity markets and continue to weigh heavily on the majority of indices, and in particular the subsectors of metals and energy.
- Metals and energy, as subsets of real assets, are dependent on global growth rather than regional influences that impact timber, agriculture, and infrastructure.
- Energy prices continue to trend downward largely driven by increased US production and the continued maintenance of production by OPEC producers.
- The mining sector continues to see pressure with excess capacity and high inventories being persistent in light of low economic growth of China, one of the world's largest consumer of most materials.
- The global influence of monetary inflation continues to be negligible over the short term due to low growth rates in economic activity and global instability mentioned above.
- Agricultural assets are showing signs of moderate valuation adjustments in regions such as the US Midwest and other locations that had previously witnessed strong valuation increases.
- Timber assets have experienced performance profiles in line with a combination of biological and local inflationary influences.
- Infrastructure assets continue to improve as strategic and institutional investors bid aggressively for assets, particularly in core infrastructure, driving down yields to moderate levels.

Portfolio Performance

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