GLOBAL LISTED INFRASTRUCTURE
Market Commentary Q2 2018

EXECUTIVE SUMMARY

- Listed infrastructure rebounded in the second quarter giving us confidence in a 10-12% return outlook for full year 2018
- Multiple sectors within infrastructure are forecasted to have accelerating cash flow and dividend growth
- Listed infrastructure continues to trade at a wide discount to private infrastructure leading to M&A activity

OUTLOOK AND STRATEGY

The secular drivers for infrastructure remain in place, namely the inflation sensitivity of the assets Our forecast for continued strong performance from listed infrastructure was validated in Q2. The strong quarterly return, however, only served to reverse the performance in Q1. We remain convicted in further positive performance from the market and retain our 10-12% return for the remainder of 2018. The return outlook is supported by a near 4% dividend yield and forecast 7-8% dividend growth.

Further bolstering out our confidence in returns is M&A activity that continues to highlight the value in the listed infrastructure market. This theme is global in nature as transactions are occurring in the U.S., Canada, Europe and Asia. Stocks are being bid at +30% premiums to their current share prices. Moreover, we are seeing significant sales by listed companies of parts of their portfolios to private investors at higher valuations than that of their total business.

The reasoning for this activity is the significant wall of private capital that is targeting the types of assets owned by listed companies that provide stable cash flows with inflation protection. Moreover, the asset class overall is positioned positively in terms of the factors that drive its outlook: regulation, fundamentals and capital markets. In numerous sectors, conditions are supporting an acceleration in earnings and dividends.

The investment case for listed infrastructure is highly compelling today. It provides exposure to an asset class that has secular growth, driven by the need for investment in ageing infrastructure, which delivers an organic total return profile of approximately 10% while offering attractive income and inflation protection. Making the investment case even stronger is our belief that this exposure can be bought at a significant discount to where a large, liquid private market continues to peg underlying asset values.

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MARKET REVIEW[1]

Listed infrastructure closed higher with a 2.7% total return (USD) for Q2 and 1.6% in June. The second quarter experienced a reversion from the first quarter. While the U.K. and Americas were the largest underperformers to begin 2018, they led the way in Q2 each with +5% returns. Q1 leader Continental Europe underperformed in Q2 and developed Asia finished in the middle both quarters while outperforming each time. Emerging markets fell 8.3% this quarter and was the worst performing region in the first half. U.S. treasury yields finished higher, Continental Europe and the U.K. declined, and Japan and Australia yields finished relatively unchanged. Crude oil increased to above $70/barrel and the USD appreciated against most currencies.

The U.K. was the best performing region in Q2 driven by reduced regulatory concern that benefited integrated and water utilities. A small satellite company, Inmarsat, had a noticeable impact increasing 46% after news of takeover speculation. Continental Europe underperformed as the political turmoil put a jolt in both the equity and bond markets globally mid-quarter. Speculations around Italy leaving the EU resulted in a broad European sell-off and Italian losses were magnified in the process. Most sectors and companies rebounded in June.

Both Canada and the U.S. outperformed global infrastructure in Q2. Canada had a strong 9.3% return due to railroads and midstream. There were favorable regulatory outcomes and asset sales in the midstream sector and an overall rebound from Q1 in the rails. U.S. midstream also was a large outperformer as improved energy market fundamentals increase confidence in the market stabilizing. Utilities outperformed and were led by gas distribution names. Railroads traded higher and towers finished negative.

Developed Asia was carried by Australia and Japan while Hong Kong was essentially flat. Australian toll roads outperformed and the one gas utility, APA Group, was up 22% after receiving a takeout bid. Japanese integrated electrics overall was a strong sector. Japanese railroads also outperformed.

IMPORTANT DISCLOSURES

[1] All discussion of performance of infrastructure stocks refers to the UBS Global Infrastructure & Utilities 50-50 Index through 02/28/2015 and FTSE Global Core Infrastructure 50/50 Index from 03/01/2015-06/30/2018.

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The FTSE Global Core Infrastructure 50/50 Index provides exposure to infrastructure as defined by the Industry Classification Benchmark (ICB) and adjusts the exposure to certain infrastructure sub-sectors. Company weights are limited to 5%. The UBS 50/50 Index is an unmanaged market-weighted index which consists of infrastructure and utility companies from developed markets whose floats are larger than US $500 million. PA07302018