MLP REALITY CHECK

Income Growth Favors Global Listed Infrastructure

October 2017

Investors in the U.S. midstream energy sector should be aware of the number and level of dividend cuts announced by MLPs and understand that distribution yield may not be as effective a valuation metric as it once was. For investors seeking visible and sustainable income growth, we believe exposure to global listed infrastructure is the better option.

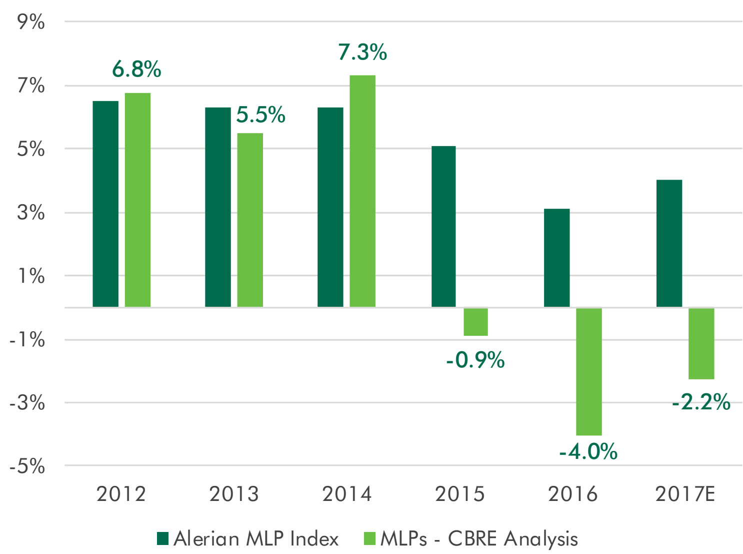
Investors in MLPs have been told that despite poor price performance, their distributions, or dividends, have continued to rise. Distribution growth, as indicated by the Alerian MLP Index continues to be positive, even after oil collapsed in late 2014. This is simply not the case.

Auditing distribution growth is particularly challenging due to the extreme turnover among the constituents of the Alerian MLP Index. The turnover and the resulting survivor bias is likely what leads to "rosier than reality" distribution growth rates quoted for MLPs since 2014.

More recently, there have been numerous headlines from high-profile companies announcing distribution cuts through both explicit cuts and stealth cuts (large mergers that effectively reduce payouts of acquired MLPs).

We unpacked the stealth cuts and index changes to illustrate the true market-capitalization-weighted average distribution growth of the MLP sector since 2012. Distributions in the MLP sector have decreased and are expected to continue to decrease. These reductions are not just isolated to the usual suspects: the high-risk, non-midstream MLPs. Some of the largest MLPs with some of the best midstream assets have recently reduced payouts.

MLPs are Cutting Distributions
MLP Annual Dividend Growth



Companies in the Alerian MLP Index have reduced distributions 56 times, including 45 explicit cuts and 11 stealth cuts over the last 3 years

as of 10/31/2017

Source: CBRE Clarion, Alerian MLP Index as of 09/30/2017. An index is unmanaged and not available for direct investment.

CBRE CLARION SECURITIES

SELECTIVE EXPOSURE TO MIDSTREAM ENERGY IS WARRANTED

While there is value in the midstream sector today, we believe passive or broad exposure to the U.S. midstream sector is not what it once was, and the need for strategic exposure by way of experienced, active management is more apparent than ever before.

While stated nominal MLP yields above 7-8% are enticing, we remain skeptical of those high yields in the face of potential future stealth distribution cuts and ongoing competitive pressures on margins for midstream assets. The U.S. midstream market is not dislocated as some MLP managers might suggest based on current yields relative to other income alternatives. Distribution yield should not be relied upon as a valuation metric.

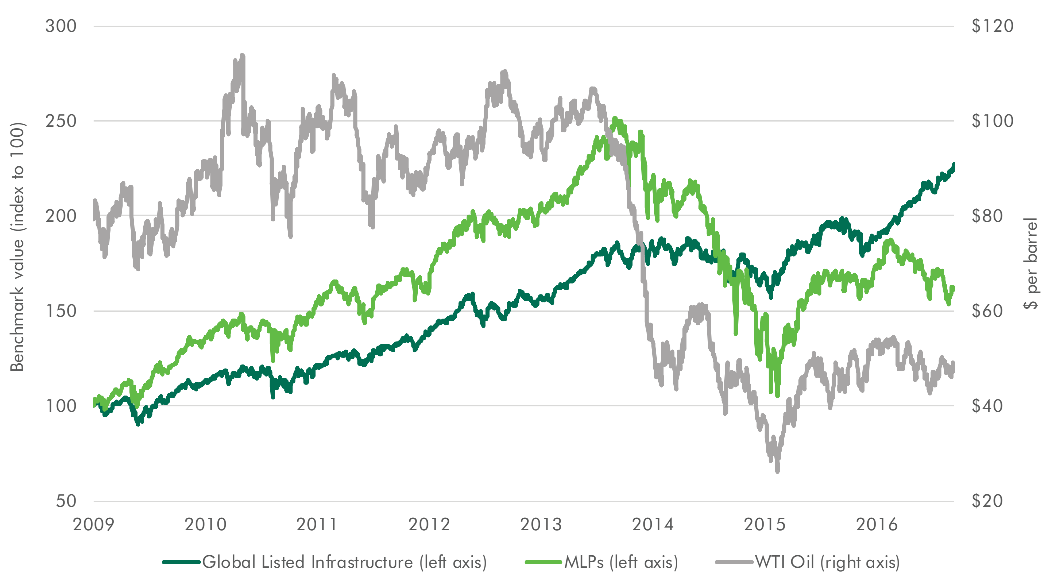
We believe the uncertainty of U.S. Midstream payouts will eventually give way to a healthy U.S. midstream sector, possibly one with fewer MLPs. By focusing on growth in cash flow per share and return on invested capital, we can use select midstream exposure to add value as a part of a diversified global listed infrastructure strategy.

SOLUTION: ACTIVE, SELECTIVE EXPOSURE WITHIN A GLOBAL LISTED INFRASTRUCTURE PORTFOLIO

We believe investors will benefit from maintaining exposure to select U.S. midstream and MLPs within an actively managed, globally-diversified infrastructure portfolio. This approach mitigates the risk of further distribution cuts and heightened correlation to oil prices while maintaining exposure to consistent cash flows and growing income offered by select midstream companies alongside other core infrastructure companies.

Midstream stocks are likely to have a higher correlation to oil prices, trading in a tight range around oscillations of commodity prices. While MLPs have faltered, the broad infrastructure universe has remained lowly correlated to oil prices and has proven to be much less volatile in the face of commodity price fluctuations.

Higher Oil Price Correlation and Volatility for MLPs
MLP and Infrastructure Performance vs. Oil Price Changes

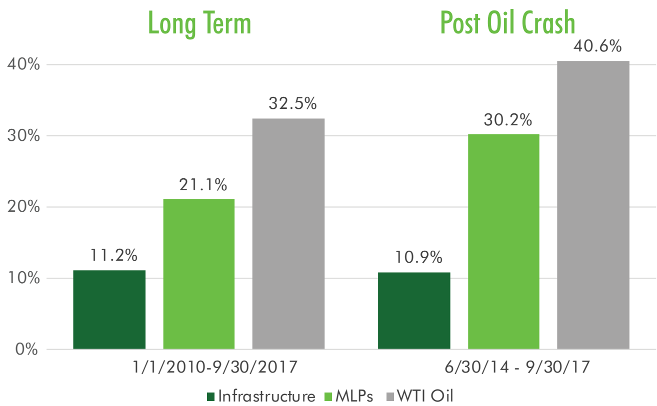


Source: CBRE Clarion, FTSE Global Core Infrastructure 50/50 Index, Alerian MLP Index, WTI Oil as of 09/30/2017. An index is unmanaged and not available for direct investment.

Global listed infrastructure volatility has remained well below MLPs over the longer-term. Since the oil price crash in 2014, MLP volatility has increased while global listed infrastructure has modestly decreased.

Listed Infrastructure Volatility and Correlation to Oil is Low vs.MLPs

MLP, Infrastructure and Oil Volatility



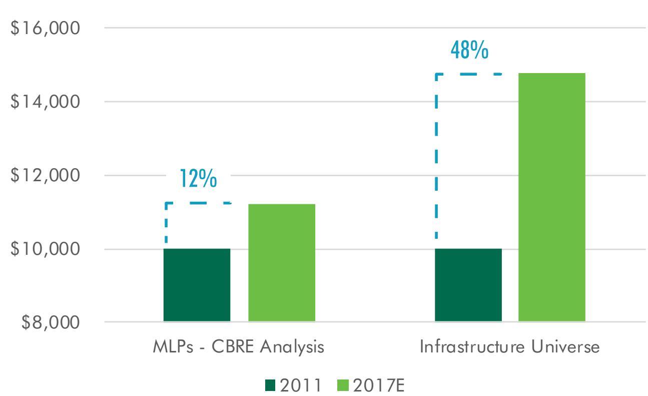
Listed Infrastructure volatility and correlation to oil is substantially lower than MLP volatility and correlation

Source: CBRE Clarion, FTSE Global Core Infrastructure 50/50 Index, Alerian MLP Index, WTI Oil as of 09/30/2017. An index is unmanaged and not available for direct investment.

While explicit cuts, stealth cuts, and index changes continue to negatively impact MLPs, income growth in the broader global listed infrastructure universe has excelled; growing 48% since 2011 while the growth rate for MLPs has been much lower, only +12.3%.

Listed Infrastructure's Income Growth far Exceeds MLPs

MLP and Infrastructure Income Growth



Listed Infrastructure income growth has far exceeded MLP income growth since 2011

Source: Bloomberg and CBRE Clarion Securities as of 09/30/2017.

In CBRE Clarion's Global Listed Infrastructure strategy, we can have U.S. and Canadian Midstream exposure, or we can also choose not to. By utilizing a broad universe of infrastructure stocks that includes utilities, transportation (roads, airports, rails), communications, and midstream, we believe we can achieve a more stable and visible path to income growth than through a focused, energy infrastructure strategy.

We can identify and participate in secular trends like communications infrastructure, renewables development, and even U.S. energy exports. Canadian Midstream stocks and most of the infrastructure universe trade at lower yields than the MLP sector, but in this case, you get what you pay for with visible, sustainable income growth.

ABOUT CBRE CLARION SECURITIES

CBRE Clarion Securities is an industry-leading global investment management firm specializing in the management of listed real asset securities including real estate, infrastructure, and master limited partnerships (MLPs). CBRE Clarion manages client portfolios with a focus on generating attractive risk-adjusted returns through a total return, income focused, and absolute return-oriented strategies. Headquartered near Philadelphia, Pennsylvania, the firm has over 90 employees located in offices in the United States, United Kingdom, Hong Kong, Japan, and Australia.

The global transfer of ideas, in-depth local market research, and market intelligence distinguishes CBRE Clarion. Our team of over 41 dedicated listed real asset investment professionals draws upon the research and resources of CBRE's global organization. Our global perspective and local infrastructure and real estate market insight combined with our disciplined investment approach enhance our teams' ability to underwrite risks and capitalize on potential opportunities.

CBRE Clarion Securities is the listed equity management arm of CBRE Global Investors, an industry-leading global real asset investment firm sponsoring investment programs across real estate, infrastructure, and private equity.

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