GLOBAL LISTED INFRASTRUCTURE
Market Commentary
Q2 2019

EXECUTIVE SUMMARY

- Listed infrastructure's second quarter performance boosted the first half of 2019 return to 17.9%, roughly on pace with global equities.

- Infrastructure is typically low beta and in a strong stock market, such as seen in the first half, infrastructure would be lagging. However, infrastructure stocks are keeping pace with the broader equity market.

- We remain positive on the outlook for continued solid returns. We are updating our forecast to a 10-12% total return the next 12 months.

OUTLOOK AND STRATEGY

Infrastructure is typically low beta and in a strong stock market, such as seen in the first half, infrastructure would be lagging. However, infrastructure stocks are keeping pace with the broader equity market. We believe that the reason for this is in part due to the significant ramp in M&A activity this year as private investors target discounted listed infrastructure.

We have pointed out that flows into private infrastructure, where asset scarcity means demand is outpacing supply, would eventually find its way to the listed market. In the first half, we tracked nearly $40 billion in deal activity, with an acceleration in public-to-private transactions. These transactions have confirmed our findings that assets in the listed market are trading at a 25% (or more) discount to private asset transactions.

We remain positive on the outlook for continued solid returns. We are updating our forecast to a 10-12% total return the next 12 months. On-going fundamentals for infrastructure assets remain generally positive and investment needs are driving growth opportunities. The combination of solid fundamentals, growth and discounted valuation positions the asset class to continue to deliver strong returns.

CBRE CLARION SECURITIES

MARKET PERFORMANCE REVIEW[1]

Listed infrastructure's 4.3% second quarter performance boosted the first half of 2019 return to 17.9%, roughly on pace with global equity return of 17.4%. In the quarter, Emerging Markets led the way up 7.6% followed by Continental Europe as the next best region with a 6.3% return. Americas finished in-line and Developed Asia underperformed global infrastructure but finished positive. The U.K. was the only region to close negative. 10-year treasury yields around the globe declined significantly during the quarter as the potential for future interest rate cuts increased.

Continental Europe transportation stocks led the region's outperformance, as airport stocks closed with double digit returns. Smaller sub-sectors like renewable energy and towers were big outperformers as well. Utilities underperformed due to integrated electric and gas utilities finishing negative. The U.K. performance was weak across sub-sectors, with the lone exception of a positive performing Severn Trent water utility.

In the Americas both Canada and the U.S. performed in-line. Canadian regulated electrics and rails were the leaders while midstream was inline. In the U.S., water utilities continued to trade higher and regulated and integrated electrics finished relatively in-line benefitting from decreasing treasury yields. U.S. rail and midstream sectors each were positive, although both trailed their respective Canadian peers. Towers outperformed and continued to set new all-time highs.

Developed Asia would have had much better returns if not for Japan which finished down 12.1%. In Japan, every integrated electric and gas utility underperformed and almost all stocks lost ground in the quarter. Rails did not help performance either and were significant laggards. Hong Kong trailed global infrastructure but finished higher. A cut in rates by the Royal Bank of Australia led to strong performance for Australian infrastructure stocks.

IMPORTANT DISCLOSURES

[1] All discussion of performance of infrastructure stocks refers to the UBS Global Infrastructure & Utilities 50-50 Index - Net of Withholding Taxes through 02/28/2015 and FTSE Global Core Infrastructure 50/50 Index - Net of Withholding Taxes from 03/01/2015-06/30/2019.

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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. PA08092019