GLOBAL LISTED INFRASTRUCTURE
Market Commentary
Q4 2019

EXECUTIVE SUMMARY

- Listed infrastructure traded up 3.7% in Q4 capping off a strong 2019 to finish up 25.1%.
- In 2019, Global Listed Infrastructure benefitted from its discounted valuation to private market values and increased investor interest.
- In our view, Global Listed Infrastructure is well-positioned to offer attractive returns to investors, with less risk to the variability of their earnings than general equities.

OUTLOOK AND STRATEGY

Global equity markets enjoyed strong returns in 2019 as fears of recession abated and central banks eased back on restrictive monetary policy in most markets. Global Listed Infrastructure companies nearly kept pace with the broader markets, although the drivers of performance were unrelated to a "risk-on" market mentality. In 2019, Global Listed Infrastructure benefitted from its discounted valuation to private market values and increased investor interest.

An acceleration in M&A activity boosted returns of the asset class in 2019 as nearly $60 billion in deals were announced. Private investors are increasing their allocations to infrastructure. Infrastructure assets are scarce and difficult to develop making existing assets in the listed market attractive to private investors flush with capital. The M&A activity was executed by the largest, most sophisticated investors in the world at an average premium of over 30% to the stock prices, highlighting the discounted valuation of global listed infrastructure stocks.

While it is difficult to predict the M&A activity in 2020, we do know that the outlook for the broader market in 2020 is increasingly clouded by uncertainty. The macro backdrop for global markets remains as unpredictable and uncertain as ever with political elections in the U.S., geopolitical risks rising in the Middle East and North Korea and the execution of Brexit, among other issues. In our view, Global Listed Infrastructure is well-positioned to offer attractive returns to investors, with less risk to the variability of their earnings than general equities.

In this uncertain environment, we believe Global Listed Infrastructure offers investors a higher level of certainty and predictability by providing consistent cash flows, which are relatively unaffected by unexpected macro events. The main drivers of Global Listed Infrastructure's relative stability and growth potential are:

- Consistent organic growth which is driven by the ongoing need for companies to invest in existing infrastructure assets which are uncorrelated to the macroeconomic outlook
- Demand for new renewable energy infrastructure to support global decarbonization initiatives
- Accelerating data growth and the need to expand communications infrastructure to meet consumer demand

Given this backdrop, we expect Global Listed Infrastructure to deliver 9-12% returns in 2020.

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MARKET PERFORMANCE REVIEW[1]

Listed infrastructure traded up 3.7% in Q4 capping off a strong 2019 to finish up 25.1%. The U.K. was the big leader with total returns of 20% in the quarter. Emerging Markets was the only other outperforming region. Developed Asia was relatively in-line with global infrastructure while Americas and Continental Europe lagged, although still finished positive. Most 10-year sovereign yields across the globe increased. The U.S. Dollar depreciated against a basket of currencies benefiting international total returns.

The U.K.'s strong quarter resulted from clarity on Brexit and Boris Johnson's decisive election victory over the Labour Party. Electric and water utilities rallied as fears of nationalization were removed and the Pound significantly appreciated. Continental Europe was mixed across sectors. Within transportation, airports outperformed while toll roads traded down. The smaller subsectors of ports and rails each had double digit returns. Among utilities, regulated electric and gas outperformed and integrated electric failed to break-even. Satellites sold off after the U.S. FCC chairman called for a public auction of spectrum.

Developed Asia was led by Australia and its transportation sector. Airports and toll roads outperformed on the back of solid passenger growth. Hong Kong underperformed global infrastructure but still had a positive quarter. Its regulated electric sector traded higher but was offset by underperforming gas utilities. Japan was the laggard for the region and lost ground. Rail stocks were negatively impacted by a typhoon early in the quarter. Integrated electrics also trailed.

Americas underperformed due to the U.S. where almost all the subsectors lagged. Economic-sensitive rail stocks were the clear leaders and benefited from the broad market gain. Low beta utilities, on the other hand, lagged as integrated electrics and water had modest gains while gas and regulated electrics traded lower. Towers slightly underperformed and satellites sold off due to the spectrum auction news. Canada outperformed as a result from strong midstream and rail performance. Regulated electrics experienced a reversion from earlier 2019 gains and had a negative quarter.

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 03/01/2015-12/31/2019.

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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. PA01302020