The starting line: Infrastructure ready to run

CBRE INVESTMENT MANAGEMENT

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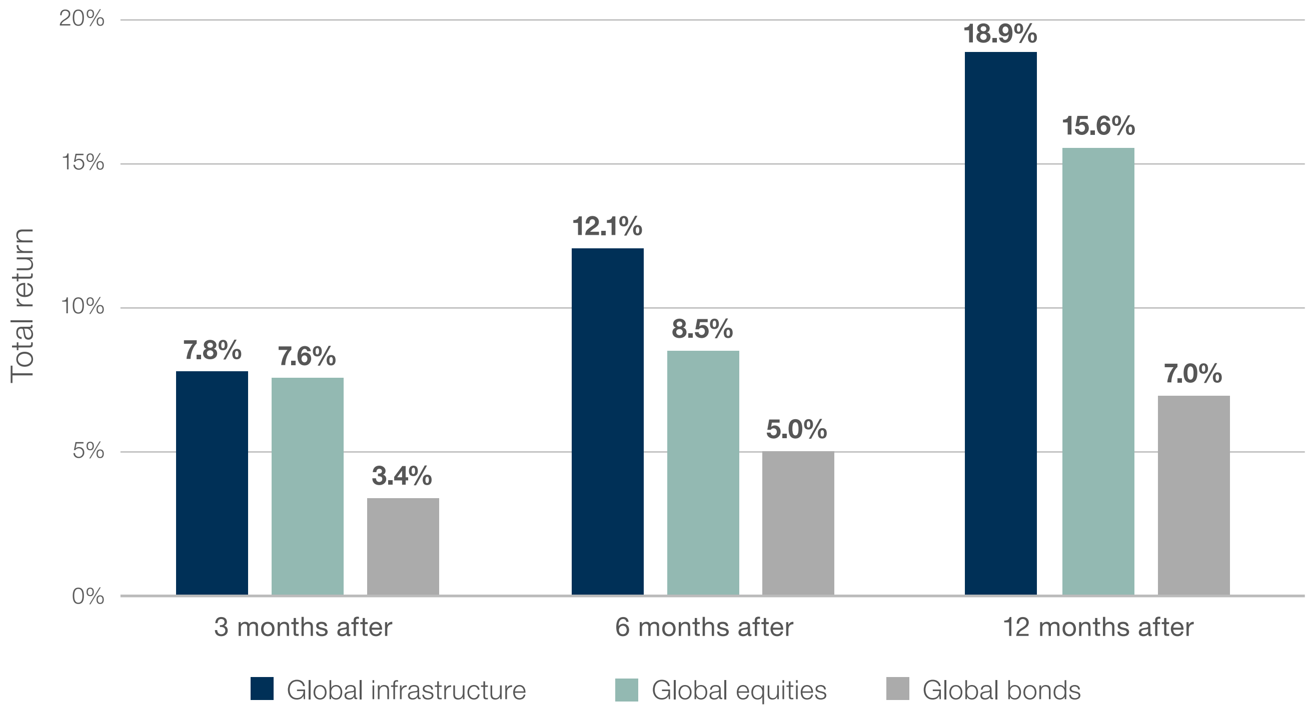
After an impressive return in 2021 and outperformance in 2022, 2023 was an atypical year for infrastructure. Amidst unprecedented Fed tightening, record Treasury debt issuance, and narrow market leadership, infrastructure underperformed broad markets by 20%, a historic level[1]. Infrastructure's lag has set the stage, in our view, for an analog to its 2003-2007 bull run. In 2001 and 2002, infrastructure experienced two years of negative returns; it then went on to deliver a ~28% annualized return for the next five years, outperforming broad equities by ~11%. Appealing to fixed income and equity investors alike, we see infrastructure offering a combination of resilient income and reliable growth potential.

A Fed pause and higher-for-longer rates

One of the most powerful catalysts for listed infrastructure is the potential for stability in long-term interest rates. While the asset class is not a bond proxy, knee-jerk reactions to a rapid rise in yields can occur hindering performance in 2023. Looking ahead, the signaling of a pause in the interest rate hiking cycle—not a cut, but a pause—can be a powerful catalyst. Following a Fed pause, the asset class has historically performed well compared to equities and bonds (see below).

The end of the Fed tightening cycle is a potential catalyst

Listed infrastructure returns after Fed pause

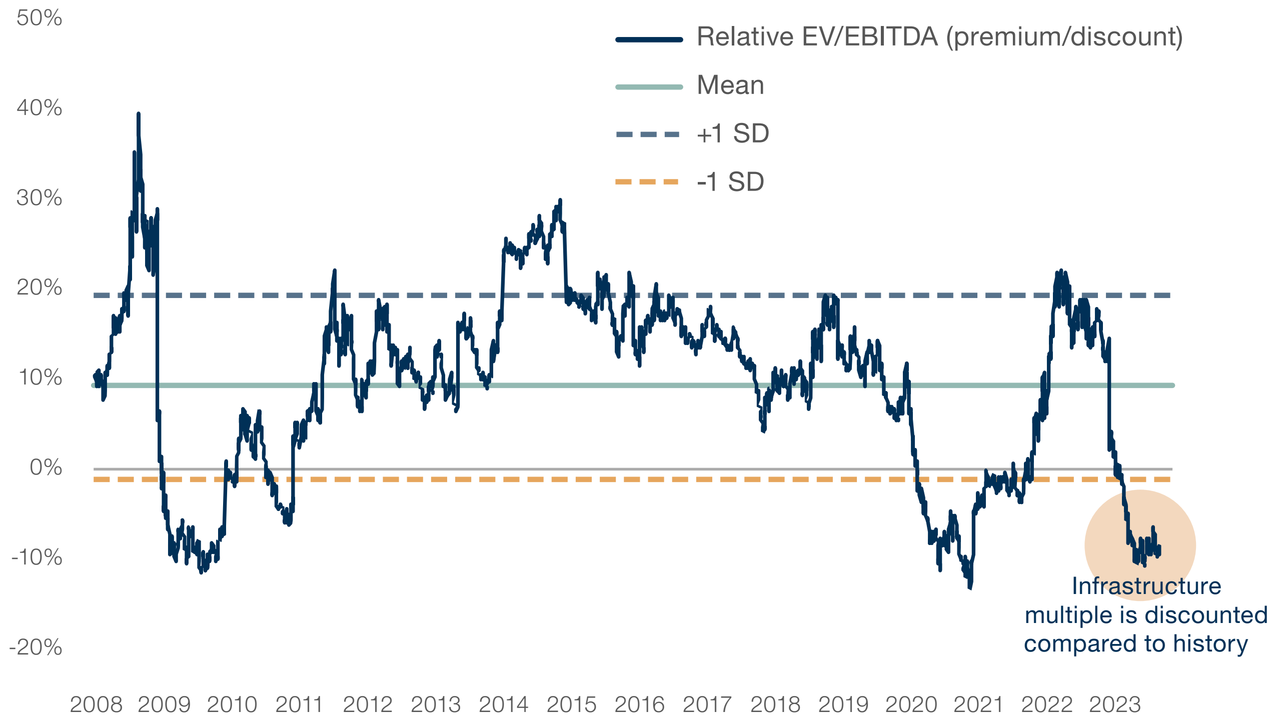


Source: CBRE Investment Management as of 11/30/2023. UBS Global Infrastructure & Utilities 50/50 Index linked as of March 1, 2015 to the FTSE Global Core Infrastructure 50/50 Index, and MSCI World Index, Bloomberg Global Aggregate Bond Index, NFI-ODCE Value Weighted Index. Global Infrastructure, Global Equities, and Global Bonds data is represented by the UBS Global Infrastructure & Utilities 50/50 Index, FTSE Global Core Infrastructure 50/50 Index, and Bloomberg Global Aggregate Bond Index, respectively. Historical average performance is calculated before and after dates when the Fed signaled a pause in rate hikes (02/28/1995, 05/31/2000, 06/30/2006, and 12/31/2018). Performance is based on monthly returns. Information is the opinion of CBRE Investment Management and is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Forecasts and any factors discussed are not indicative of future investment performance. You cannot invest in an index.

Historic valuation disconnects; competitive potential returns

The fundamental strength of infrastructure in a higher-for-longer regime contrasts with the current valuation of listed infrastructure. With infrastructure's historic lag relative to broad equities in 2023, the asset class screens at lower prices. Historically a ~10% premium asset class, infrastructure is at a ~10% discount today, more than a one standard deviation disconnect. This discount has historically preceded strong performance, with infrastructure delivering double-digit returns on average in periods following. Even before considering the prospects for multiple expansion, infrastructure's total return proposition remains sizable; its ~4% dividend yield and 7% estimated potential income growth are compelling compared to other real assets and to equities more broadly.[2]

Infrastructure's secular historical growth

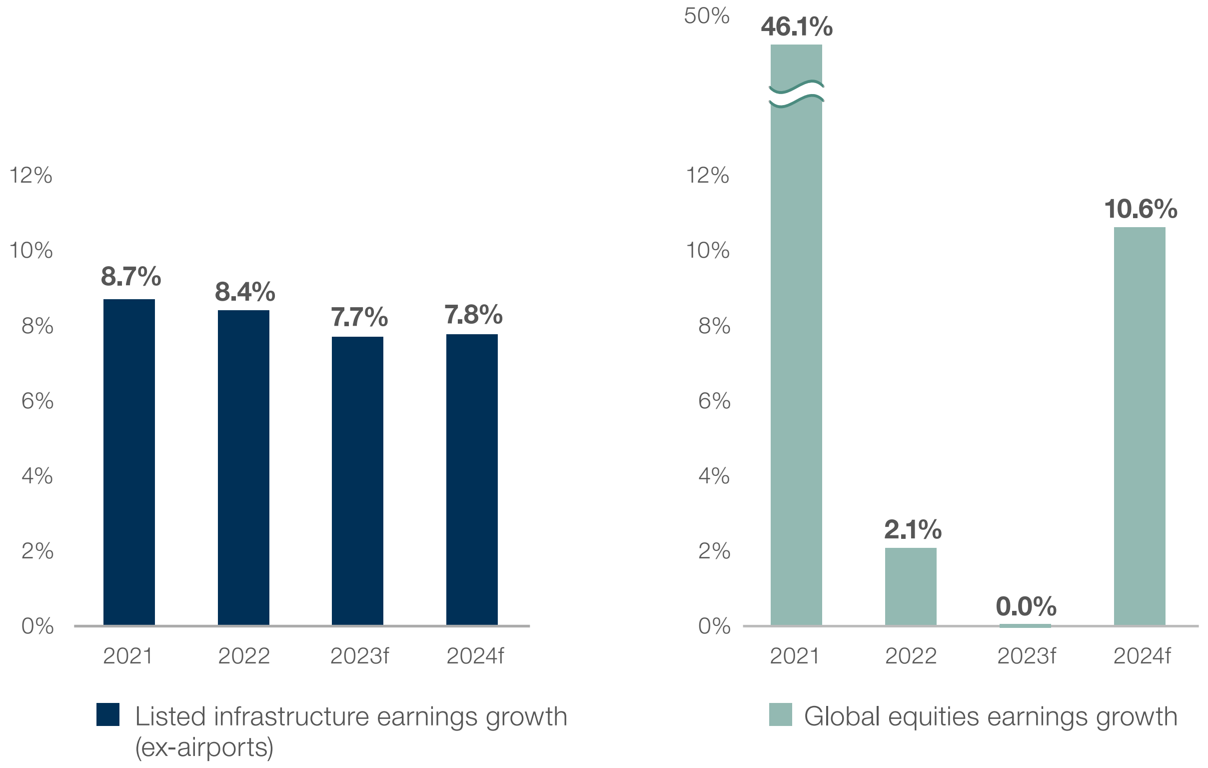


Source: CBRE Investment Management as of 11/30/2023. Total return proposition is represented by the 2023 dividend yield and two-year forward dividend CAGR of the FTSE Global Core Infrastructure 50/50 Index. Global equities is represented by the iShares MSCI ACWI ETF when being compared against the FTSE Global Core Infrastructure 50/50 Index. Information is the opinion of CBRE Investment Management, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Forecasts and any factors discussed are not a guarantee of future results. You cannot invest in an index.

Rising earnings, historically reliable cash flows, resilient income potential

Infrastructure's return opportunity is girded by its fundamentals, which have strengthened in 2023. CBRE Investment Management sees the potential for high single-digit earnings growth in 2023 and 2024, with a double-digit growth in dividends; this is an upgrade to expectations at the end of Q1 23. Compared to broad equities, we see infrastructure earnings and cash flows as reliable, built on a bedrock of contracted and generally regulated returns, and strengthened by secular investment.

Infrastructure's earnings compared to broad equities



Source: CBRE Investment Management as of 11/30/2023. Listed Infrastructure and Global Equities is represented by the FTSE Global Core Infrastructure 50/50 Index and the ACWI ETF, respectively, as of 11/30/2023. "f" refers to "forecasts." Estimates are derived using CBRE Investment Management and FactSet estimates for individual company estimates as of 11/30/2023. EPS growth excludes airports due to the underlying volatility of traffic estimates post-2019. EPS estimates can be affected by assumptions concerning revenue growth, operating margins, interest rates, and tax rate assumptions. Information is the opinion of CBRE Investment Management, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Forecasts and any factors discussed are not a guarantee of future results. You cannot invest in an index.

Secular investment themes support earnings and income growth potential

The secular nature of infrastructure investment and the relative stability of the sector's businesses have aided infrastructure cash flows in outperforming broad equities in the past; they give us further comfort in the event of economic distress following the delayed impacts of tighter monetary policy in the future. We summarize major considerations by investment theme below.

Investment theme	Key considerations
Decarbonization	• Project-level returns for onshore utility-scale renewable developers in our portfolio remain unaltered despite headwinds to offshore wind and more speculative clean tech businesses. • The size of potential investment has risen, bolstered by growing corporate demand and aided by the Inflation Reduction Act (IRA) and other global policies. • IRA deployments are politically agnostic: weighted toward states such as Texas, Florida, and Oklahoma, with nearly 2x as much spending and jobs created in counties won by President Donald Trump compared to President Joe Biden.
Digital transformation	• Data demand remains robust, driven by artificial intelligence and secular consumption. • Utilities are likely to benefit from increased demand for power and load growth, requiring new investment in generation and transmission.
Energy security	• An enhanced need for diversity of energy supply supports renewables, traditional nuclear generation, and midstream energy infrastructure. • Natural gas infrastructure remains critical to the baseload power needs of developed markets.
Inflation capture	• Infrastructure assets have the ability to benefit from inflation not just today but also in the future, as the cumulative impacts of recent inflation may lead to above average pricing and revenue growth in the years ahead. • Global transports, including toll roads, passenger rail, and airports, which continue to capture normalized traffic post-Covid, offer best-in-class pricing power to maintain and expand margins.

Amidst the dislocation and dispersion of 2023, we see compelling opportunities. Within our portfolios, holdings across integrated utilities stand at depressed valuations, with their growth prospects unchanged. Global communications assets trade at historic discounts compared to relative historical averages and values in the private market. Transport assets remain opportunistic in their potential to benefit from economic activity, with the potential to capture enhanced, inflation-aided pricing power; our midstream assets have continued to generate free cash flow. As we look ahead into 2024, we are optimistic about the listed infrastructure asset class, and are confident in its potential and our strategies. We believe that this new year may be the start of a new run for active listed infrastructure investors.

1. As of 11/30/23, comparing the performance of the UBS Global Infrastructure & Utilities 50/50 Index linked to FTSE Global Infrastructure 50/50 Index to the MSCI World Index. If 2023 ended on 11/30/23, it would represent the second worst relative performance year for infrastructure over the last two decades.

2. Based on the FTSE Global Infrastructure 50/50 Index as of November 2023.

INDEX DEFINITIONS

The **Bloomberg Global Aggregate Bond Index** is a flagship measure of global investment-grade debt from 28 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

The **FTSE Global Core Infrastructure 50/50 Index** is a broad-based index representing infrastructure and infrastructure-related listed securities in developed markets.

The **MSCI World Index** captures large and mid-cap representation across 23 Developed Markets (DM) countries.

The **NFI-ODCE Value Weighted Index (NFI-ODCE)** is a capitalization-weighted, gross of fee, time-weighted return index based on each fund's net invested capital, which is defined as beginning market value net assets (BMV), adjusted for weighted cash flows (WCF) during the period.

The **UBS Global Infrastructure & Utilities 50/50 Index** tracks a 50% exposure to the global developed-market infrastructure sector and a 50% exposure to the global developed-market utilities sector, the returns of which reflect no deduction for fees and expenses but are net of dividend withholding taxes.

IMPORTANT DISCLOSURES

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