Stones, structures, and stakeholders: Comparing infrastructure investment options

DECEMBER 2021

Jeremy Anagnos, CFA
Portfolio Manager
CBRE Investment Management

CBRE Investment Management is the listed equity management arm of CBRE Global Investors, a global real asset investment firm sponsoring investment programs across real estate, infrastructure, and private equity. CBRE Investment Management manages client portfolios with a focus on generating attractive risk-adjusted returns through total return and income-focused strategies.

Investors are excited about infrastructure. Globally, government stimulus, policy mandates, and secular business forces are aligning to create one of the most compelling investment opportunities for the next decade. When investors buy into popular infrastructure options, however, they might not get what they're expecting. We examine the market and find the following:

- Investors can buy into infrastructure three ways: ETFs with **cyclical infrastructure inputs** (the stones), ETFs with **passive infrastructure assets** (the structures), or they can invest with **active infrastructure managers** (the stakeholders).
- Infrastructure stones, largely industrial and material companies, tend to be volatile. Meanwhile, passive infrastructure-asset ETFs, which are limited and unbalanced, fail to capitalize on the information advantages that active managers can hold.
- For investors seeking long-term growth, a balance of assets, and the keys to durable return, the conclusion is clear: drop the stones, skip the structures — and support the stakeholders of infrastructure.

Societal, secular, and cyclical forces aligning for infrastructure

It's been a good year for infrastructure. The asset class successfully weathered COVID-19, and cash flow momentum is accelerating. In Europe, the €1 trillion European Green Deal is taking flight, and 68% of global economies are committed to net zero. We see strong growth for the asset class, with the potential for $100 trillion in spending to promote decarbonization, modernize assets, and support data consumption. Over the next several years, this secular growth should augment cyclical recoveries in assets such as airports and railroads, as the world finds a new economic rhythm post COVID-19.

NEW YORK LIFE INVESTMENTS

With this backdrop, investors are understandably excited about infrastructure. However, they have several different options from which to choose, with differences in risk and return. We see the market as divided between products representing the cyclical inputs of infrastructure, passive ownership of infrastructure assets, and active infrastructure management itself, as seen in **Figure 1**:

Figure 1: Today's infrastructure investment options:

Cyclical Infrastructure — Inputs ETFs (Stones)	**Passive Infrastructure Assets ETFs** (Structures)	**Active Infrastructure Managers** (Stakeholders)
■ ETFs that own largely industrial and materials companies ■ U.S. focused holdings ■ Levered bet on industrial beta ■ Poor performance in down markets	■ Limited access to infrastructure universe ■ Unbalanced infrastructure asset and geographic exposures ■ Poor performance in down markets ■ Inability to outperform	■ Unconstrained infrastructure universe ■ Balanced sector and geographic exposures ■ Superior upside and downside capture metrics ■ Information advantaged ■ Durable drivers of outperformance
Examples: Global X U.S. Infrastructure Development ETF (PAVE) First Trust NASDAQ Clean Edge Smart Grid Index ETF (GRID)	**Example:** iShares Global Infrastructure ETF (IGF)	**Example:** MainStay CBRE Global Infrastructure Fund (VCRIX)

Click on the fund names for the most current fund page, which includes the prospectus, investment objectives, performance, risk, and other important information: Returns represent past performance which is no guarantee of future results. Current performance may be lower or higher. Investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Visit nylinvestments.com/funds for the most recent month-end performance.

The stones of infrastructure

The inputs of infrastructure, or stones, tend to be highly cyclical. They are well-represented by the PAVE and GRID ETFs, which collectively have $5.1 billion in assets under management.

Figure 2: STONES: Benefiting from physical construction

Stones of infrastructure

PAVE and GRID ETFs

Assets under management ($ millions)	$5,131
Sector weights	
Machinery (equipment and rental)	23%
Steel, cement, chemicals, and building materials	22%
Lighting and automation products	14%
Freight rail	10%
Engineering and construction services	9%
Aerospace and electronics	8%
Industrial distributors	4%
Other	11%
Geography	
Americas	96%
Rest of world	4%

Representative holdings:
United Rentals
Nucor
Vulcan Materials Company
John Deere
Rockwell Automation

High correlation to industrial indices

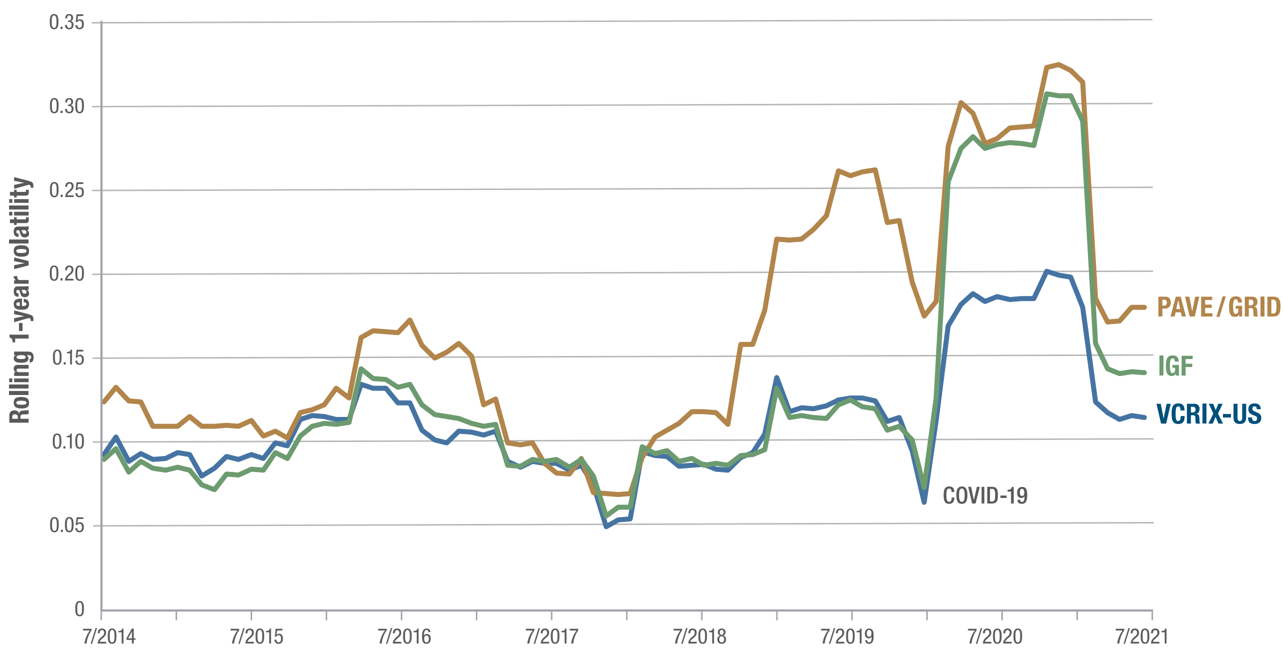
3-year correlation		PAVE-US
PAVE-US	Global X U.S. Infrastructure Development ETF	1.00
GRID-US	First Trust NASDAQ® Cln Edge® StGidlfs ETF	0.91
XLI-US	Industrial Select Sector SPDR® ETF	0.97
DJG:DJIAK	Dow Jones Industrial Average–Total Return	0.93

Sources: Based on the weighted average holdings of the PAVE and GRID ETFs, per FactSet and CBRE Investments, as of September 2021. **Representative holdings are among the top 20 largest positions within the PAVE ETF.**

These ETFs are high beta products levered to industrial activity. We see companies such as Nucor, which forges steel; United Rentals, which loans out scissor lifts and excavators; and Vulcan Materials, which mines gravel and crushed stone—a key component in highways. The companies are correlated to a steepening yield curve and rising inflation—and to the industrials sector in general. They operate in competitive businesses where margins compress and expand with the cycle. As a result, who are these stones best for? Investors who don't need a dividend and want to make a decisive, levered bet on industrial beta and the continued outperformance of cyclical stocks—stocks that have exhibited significant volatility over time.

Below, we show the rolling volatility of PAVE/GRID vs. IGF and the CBRE Mainstay Global Listed Infrastructure Fund, VCRIX. PAVE/GRID, as cyclical inputs of infrastructure, are far more volatile than the infrastructure assets in IGF. Active management in infrastructure investing can dampen volatility amidst crisis, as when VCRIX significantly outperformed IGF during COVID-19.

Figure 3: Rolling volatility of PAVE/GRID vs. IGF and VCRIX



Sources: CBRE Investment Management. Compares the rolling volatility of the PAVE, GRID, and IGF ETFs with the CBRE Mainstay Infrastructure Fund. PAVE and GRID results are represented jointly.

The assets of infrastructure (structures)

Compared to stones, the structures of infrastructure provide a steadier return to investors, composed of dividends and capital appreciation, which comes from their long-term assets. Whereas Vulcan Materials might sell cement to build a highway, toll-road companies like Transurban own the highway; they'll likely earn revenues on the roads for decades. Similarly, other assets such as utilities, data centers, cell towers, and airports have long-term contracts or regulated returns, which provide stability to earnings. If the bricks of infrastructure act like fast money, with short-term boosts to cash flows and stock prices, then the buildings of infrastructure are slow money—earnings produced from assets over the long term.

Whereas cyclicals might sell cement to build a highway, toll-road companies own the highway.

Figure 4: STRUCTURES: Passive infrastructure ownership

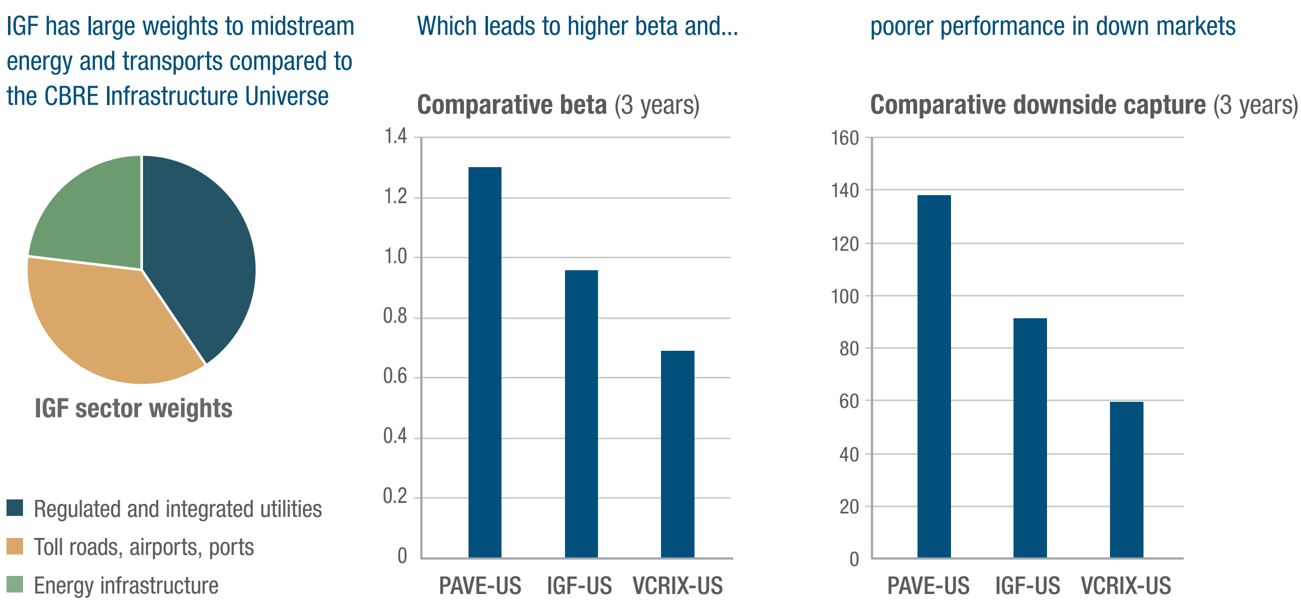
Structures of Infrastructure		
iShares Global Infrastructure ETF (IGF)		
Addressable market cap ($ trillions)	$1.5	**Representative holdings:**
Number of companies	74	
Top 10 weights	39.6%	Nextera Energy
Sector weights		Transurban
Regulated and integrated utilities	40.5%	Enbridge
Toll roads, airports, ports	36.4%	
Midstream energy	23.1%	
Data centers, cell towers, satellites	0.0%	
Geography		
Americas	49.1%	
Europe	27.2%	
Asia	15.4%	
Emerging markets and other	8.4%	

Sources: CBRE Investment Management, Factset. Based on the holdings of the IGF ETF as of September 2021.

Challenges exist, however, to purely passive ownership of infrastructure assets.

Challenges exist, however, to purely passive ownership of infrastructure assets. First, infrastructure benchmarks, which the ETFs track, aren't uniform: They each tend to capture only a portion of the whole universe. In addition, the larger ETFs make sizable bets to cyclical sectors such as midstream energy and transportation. This may lead to poor performance in tough environments, as was the case during COVID-19, which is generally the opposite of what investors are looking for when they invest in the infrastructure asset class.

Figure 5: Exposures and characteristics of iShares Global Infrastructure ETF (IGF)



Sources: CBRE Investment Management, Factset. Holdings analysis of the IGF ETF, as of September 2021.

Sources: CBRE Investment Management, Factset. Comparison to the MSCI World Index as of July 31, 2021.

The stakeholders of infrastructure: active infrastructure management

The stakeholders of infrastructure, as represented by active managers such as CBRE Investment Management, potentially improve upon passive ownership in several ways. First, a full consideration of the listed infrastructure universe—rather than any one benchmark—results in a larger investible pool of assets, with balanced exposures across geographies and sectors. This, in turn, has contributed to superior beta and downside capture metrics as compared to passive ETFs such as the IGF and the benchmark it tracks (see **Figure 5**). Below, in **Figure 6**, we summarize the key differences between the CBRE Listed Infrastructure Universe and the IGF ETF.

Figure 6: Comparing the IGF ETF to the CBRE Listed Infrastructure Universe

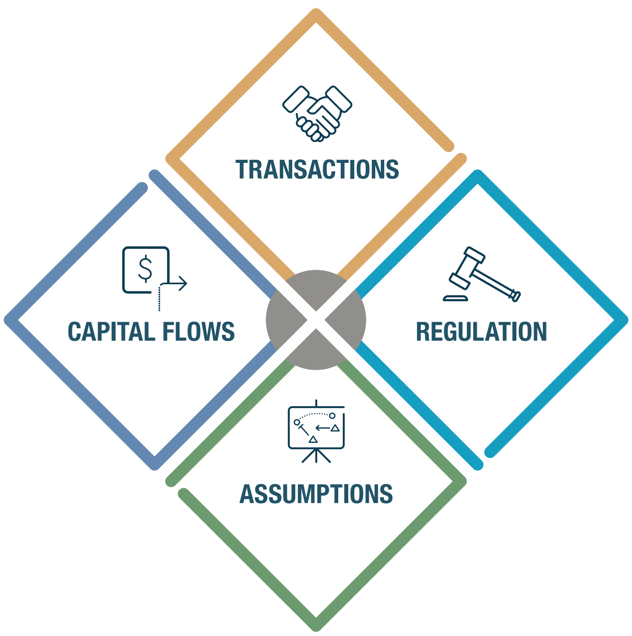
Structures (passive investing)		Stakeholders (active management)	
iShares Global Infrastructure (IGF) ETF		**CBRE Listed Infrastructure Universe**	
Addressable market cap ($ trillions)	$1.5	Addressable market cap ($ trillions)	$3.9
Number of companies	74	Number of companies	372
Top 10 weights	39.6%	Top 10 weights	28.9%
Sector weights		**Sector weights**	
Regulated and integrated utilities	40.5%	Regulated and integrated utilities	52.5%
Toll roads, airports, ports	36.4%	Toll roads, airports, ports	22.0%
Midstream energy	23.1%	Midstream energy	12.7%
Data centers, cell towers, satellites	0.0%	Data centers, cell towers, satellites	12.0%
Geography		**Geography**	
Americas	49.1%	Americas	58.0%
Europe	27.2%	Europe	21.7%
Asia	15.4%	Asia	8.9%
Emerging markets and other	8.4%	Emerging markets and other	11.4%

Sources: CBRE Investment Management and FactSet, as of September 2021.

Second, relative to passive infrastructure ETFs such as the IGF, active managers like CBRE may possess a sizable private-public information advantage, as well as specialized knowledge of niche sectors (relative to global equities coverage) that offer opportunities for durable alpha. In infrastructure, private market data is not widely available, so those managers with dedicated resources and on-the-ground knowledge have an edge. Infrastructure sectors are also only 2.5% of general equities indices, and hence tend to attract limited sell-side and buy-side coverage. As a result, infrastructure managers tend to know a lot more about their stocks than the average global equity portfolio manager.

Figure 7: Benefits of active infrastructure managers

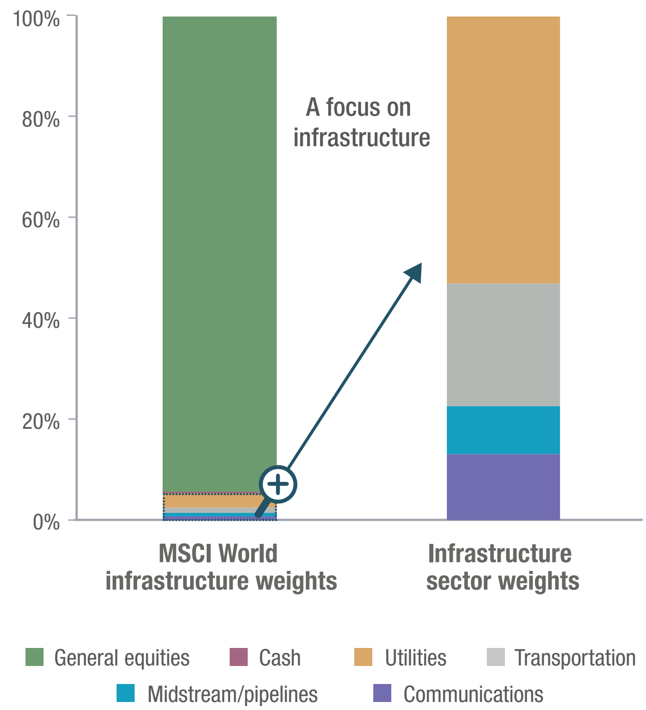
An information edge…



Integrated Research Platform
CBRE's globally integrated real assets research platform provides in-depth private and listed market insights.

Source: CBRE Investment Management.

…with potential for durable alpha

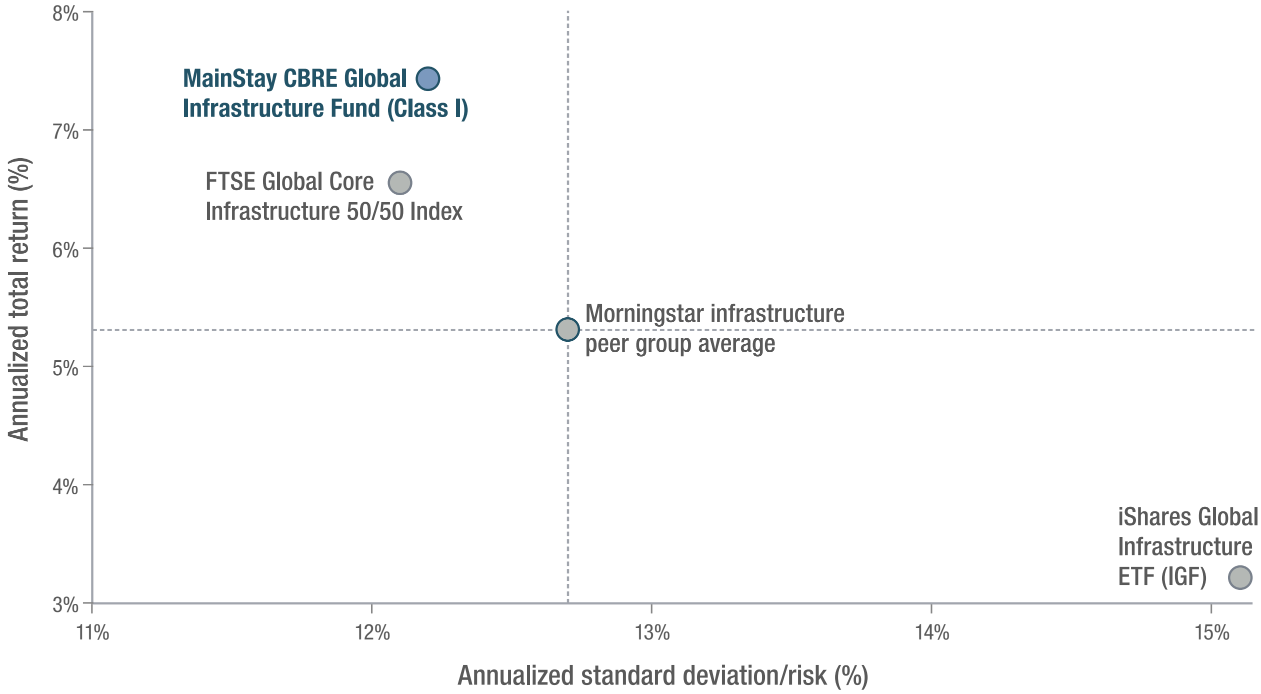


Sources: CBRE Investment Management and FactSet, as of September 2021.

Collectively, these advantages can potentially lead to outperformance and attractive risk-adjusted returns over time. Below, we compare the performance of the CBRE Mainstay Global Infrastructure Fund, ticker "VCRIX", to its benchmark, the FTSE Global Core Infrastructure 50/50 Index, as well as the IGF ETF. CBRE has generated a compelling and differentiated risk/reward skew compared to IGF. It has offered a higher return, with generally commensurate volatility, to its index. It has also performed handsomely versus peers.

Figure 8: Compelling risk/reward performance with active management vs. passive ownership

(VCRIX vs. benchmarks and IGF; 7-year trailing performance)



Sources: CBRE Investment Management and Morningstar as of September 30, 2021. 7-year trailing performance is annualized and based in USD. Class I shares are only available to corporate and institutional investors. Morningstar Infrastructure Peer Average consists of the oldest share class only. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.

Supporting the stakeholders of infrastructure

When we examine the outlook for infrastructure today, we find a compelling multi-decade investment opportunity. Investors, however, must choose wisely. Infrastructure inputs, the stones, have already gained handsomely with powerful U.S. exposures, a steepening yield curve, and a recovery in the U.S. industrial economy. Infrastructure structures boast long-term cash flows that provide stability for growing dividend yields, but they are often limited in scope and unbalanced across sectors. It is the stakeholders in infrastructure, the active managers such as CBRE, who have an information edge and have demonstrated durable, consistent, and compelling outperformance over time.

DEFINITIONS

Beta is a measure of the volatility of a security or portfolio compared to the market as a whole.

Downside capture represents a portfolio's performance during periods of negative benchmark performance.

Rolling 1-year volatility represents the standard deviation using the 12-month rolling periods of returns, providing a specific standard deviation value for each period.

INDEX DEFINITIONS

The **FTSE Global Core Infrastructure 50/50 Index** captures the performance of listed infrastructure securities in both developed and emerging markets. Constituents are selected by further screening companies who derive revenues from infrastructure related activities within particular Industry Classification Benchmark (ICB) sub-sectors of the FTSE Global All Cap Index. FTSE applies minimum infrastructure revenue thresholds of 65% for constituents of the Core Infrastructure indices.

The **MSCI World Index** is a broad global equity index that represents large- and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and does not offer exposure to emerging markets.

IMPORTANT DISCLOSURES

The information presented herein is current as of the date of this report unless otherwise indicated. Any forward-looking statements are based on assumptions concerning future events, and although we believe that the sources used are reliable, the information contained in these materials has not been independently verified and its accuracy is not guaranteed. The information discussed is strictly for illustrative and educational purposes and is not a recommendation, offer, or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any information discussed will be effective or that any market expectation will be achieved. This information should not be relied upon by the reader as research or investment advice regarding any funds, financial products, or any particular issuer/security. This material contains general information only and does not take into account an individual's financial circumstances. This information should not be relied upon as a primary basis for an investment decision. Rather, an assessment should be made as to whether the information is appropriate in individual circumstances, and consideration should be given to talking to a financial professional before making any investment decision.

The views expressed herein are from CBRE Investment Management and do not necessarily reflect the views of New York Life Investment Management LLC or its affiliates. New York Life Investment Management LLC engages the services of federally registered advisors. CBRE Investment Management is a registered Investment advisor unaffiliated with New York Life Investments, All investments are subject to market risk, including possible loss of principal. Before considering an investment in the Fund, you should understand that you could lose money. Active management typically involves higher fees than passive management.

The investment strategies, practices and risk analyses used by the Subadvisor may not produce the desired results. Investments in infrastructure-related securities will expose the Fund to potential adverse economic, regulatory, political, legal and other changes affecting such investments. Issuers of securities in infrastructure-related businesses are subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, high leverage, costs associated with environmental or other regulations and the effects of economic slowdowns. MLPs carry many of the risks inherent in investing in a partnership. State law governing partnerships is often less restrictive than state law governing corporations. Accordingly, there may be fewer protections afforded investors in an MLP. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. The risks of investing in emerging markets include the risks of illiquidity, increased price volatility, smaller market capitalizations, less government regulation, less extensive and less frequent accounting, financial and other reporting requirements, risk of loss resulting from problems in share registration and custody, substantial economic and political disruptions, and the nationalization of foreign deposits or assets. Small and mid-cap stocks are often more volatile than large-cap stocks.

Because the Fund concentrates its investments in securities issued by companies principally engaged in the infrastructure group of industries, the Fund may be subject to greater risks and market fluctuations than a fund whose portfolio has exposure to a broader range of industries.

Portfolios concentrated in infrastructure securities and Master Limited Partnerships ("MLPs") may experience price volatility and other risks associated with non-diversification. Investment in infrastructure related companies may be subject to high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, the effects of energy conservation policies, governmental regulation and other factors. MLPs often own interests Related to the oil and gas industries or other natural resources but may finance other projects. As such, MLPs will be negatively impacted by economic events adversely impacting that industry. Investments in MLPs may offer fewer legal protections than investments in corporations, and limited voting rights. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors, as well as increased volatility and lower trading volume. Other risks of the Fund include but are not limited to: company, convertible securities, currency, derivative instruments, investment model, liquidity, market, market capitalization, other investment companies, and securities lending risks.

New York Life Investment Management LLC engages the services of federally registered advisors. CBRE Investment Management is unaffiliated with New York Life Investments.

For more information about MainStay Funds®, call 888-474-7725 for a prospectus or summary prospectus. Investors are asked to consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus or summary prospectus contains this and other information about the investment company. Please read the prospectus or summary prospectus carefully before investing.

NEW YORK LIFE INVESTMENTS

1920551 MS196-21 MSCBGI38d-12/21