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GLOBAL LISTED INFRASTRUCTURE

A Case for Investing

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INTRODUCTION

Listed infrastructure appeals to investors in many ways. It has a history of attractive returns and volatility; providing an increased level of transparency and liquidity versus private-market investments. Its yields support an investment outcome that often rises with inflation. Listed Infrastructure's total return is anchored by predictable cash flows and attractive dividends. In a sign that investors see global infrastructure as a distinct and separate asset class that deserves an allocation within a broadly diversified portfolio, Morningstar added infrastructure as a separate mutual fund category as of April 2016

WHO INVESTS IN INFRASTRUCTURE?

Listed infrastructure is often part of an allocation to global equities or real assets. In our experience, it's particularly popular among the following types of investors:

- **Investors with an Allocation to Real Assets**
  Like other real assets, global infrastructure assets are tangible, physical assets that provide a real return that often rises with inflation.
- **Investors who Seek Attractive Income**
  The dividend yields on listed infrastructure are higher than those of global stocks and bonds. The dividend yield has served as an anchor to the historical total return of listed infrastructure.
- **Investors Seeking Competitive Risk-Adjusted Returns**
  Listed infrastructure has historically had less volatility than equities. Listed infrastructure seeks to provide investors with an attractive combination of stability, income, and growth, which may enhance the risk-adjusted return potential of a mixed asset portfolio.

WHAT IS INFRASTRUCTURE?

Global infrastructure provides the structures and systems that are essential for society to function. It consists of physical assets that are costly and difficult to replace. Such assets often benefit from monopolies and inelastic demand, which are sources of their ability to provide stable cash flows over long periods of time. This means global infrastructure is less affected by economic cycles than other investments. Government regulation and oversight often limits competition to global infrastructure providers.

The wealth of global infrastructure opportunities has expanded greatly over the past 20 years, as governments have increased the private sector's role. The core infrastructure universe identified by CBRE Clarion has grown from about $400 billion in 1995 to $3.0 trillion in 2016 (Exhibit 1). Core infrastructure companies are defined as companies that own long-duration global infrastructure assets with a stable demand profile and low volatility of cash flows. These companies can be identified through an analysis of underlying assets, business models, and investment characteristics.

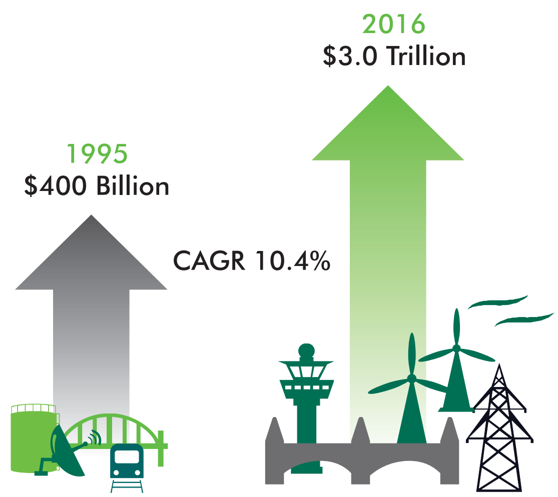
More than $57 trillion[1] is needed to fund global infrastructure projects in the coming years. This suggests that there'll be a good supply of attractive projects in regions that range from developed to emerging-market countries. This is likely to encourage the continued rise of global infrastructure as an asset class.

Global infrastructure investment needs are significant. More than $57 trillion is needed to fund global infrastructure projects in the coming years.

Examples of Global Infrastucture Assets:

- **Communications:** Fixed-line networks, satellites, wireless towers
- **Oil and Gas Transport and Storage:** Gathering and processing facilities, liquid terminals, LNG facilities, long-haul pipelines
- **Transportation:** Airports, ports, railroads, toll roads
- **Utilities:** Electric distribution, electric transmission lines, gas distribution pipelines, renewable energy facilities, water distribution systems

Exhibit 1:Listed Infrastructure Market Growth



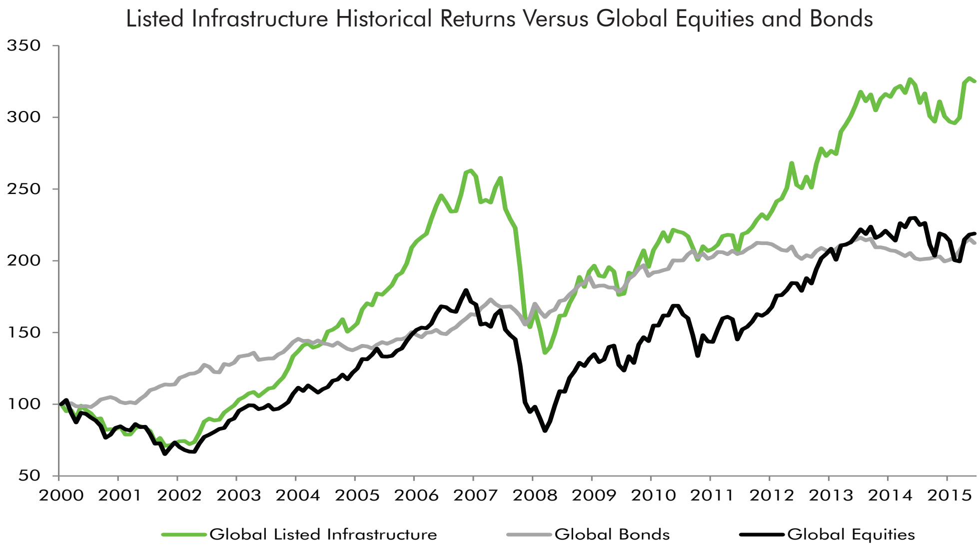
Source: UBS Global Infrastructure & Utilities 50-50 Index as of 12/31/1995 and CBRE Clarion Investable Universe as of 05/31/2016.

GLOBAL LISTED INFRASTRUCTURE: POTENTIAL BENEFITS

Attractive Historical Returns

Listed infrastructure has historically provided attractive returns with less volatility than stocks. Looking strictly at returns, it outperformed global stocks and global bonds over the past 15 years ended May 31, 2016 (Exhibit 2). Over that period, the annualized total return of listed infrastructure was 8.5% vs. 5.9% and 5.3% for global stocks and global bonds, respectively.

Exhibit 2: Listed Infrastructure has a History of Strong Outperformance



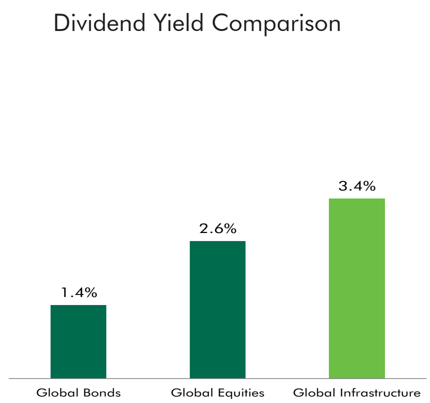
Source: CBRE Clarion as of 05/31/2016.

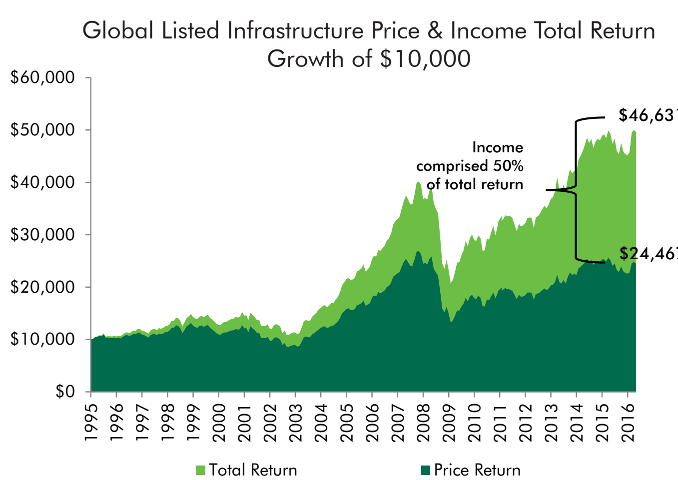
Historically, global infrastructure has provided attractive returns anchored by consistent and rising levels of dividend income.

Attractive Yields

Listed infrastructure's returns come partly from appreciation from rising investment and partly from dividend yields. Listed infrastructure's dividend yields are greater than those of global stocks and bonds. Dividends have accounted for approximately 50% of the total return of listed infrastructure over the past decade (Exhibit 3).

Exhibit 3: Dividend Yields Provide a Strong Source of Total Return





Source: CBRE Clarion as of 05/31/2016.

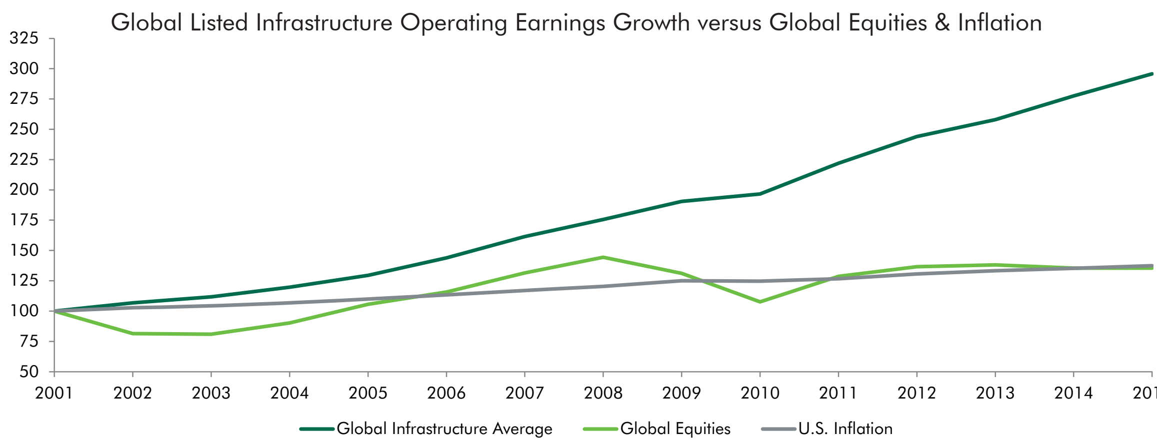
Global infrastructure provides investors with stable and resilient cash flows that are less vulnerable to fluctuations caused by unexpected world events.

Stable Earnings

Listed infrastructure historically has generated relatively predictable and rising cash flows across market cycles, as in the period 2001 to the present (Exhibit 4). Listed infrastructure's relatively stable and predictable cash flows rest partly on the long-lived contractual revenue streams that make the yields on this asset class attractive.

Moreover, demand for the essential services provided by global infrastructure may remain stable regardless of economic weakness. As a result, listed infrastructure's cash flows are less vulnerable to fluctuations caused by unexpected world events.

Exhibit 4: Listed Infrastructure May Provide Stable and Rising Cash Flows



Source: CBRE Clarion's Infrastructure investable universe, MSCI AWCI Index and U.S. Consumer Price Index data as of 12/31/2015. For comparison purposes, company operating earnings and the U.S. Consumer Price Index values were rebased to 100 on 12/31/2000.

A BUILT-IN MECHANISM FOR GROWTH AND INFLATION PROTECTION

Listed infrastructure cash flows and dividends benefit from contractually driven, inflation-linked revenue growth, which may provide a long-term hedge against inflation and rising interest rates. For example, toll road assets may offer inflation protection because long-term contracts typically tie fees explicitly to inflation. In other instances, such as regulated utilities in the U.K. and Italy, returns are set based on real returns, rather than nominal returns, again allowing for a direct link to inflation.

In addition to inflation-linked revenue, global infrastructure companies grow revenues and income through capital expenditures to upgrade, improve, or enhance existing infrastructure. Such spending offers them an opportunity to earn a rate of return on these investments in excess of their cost of capital, and drives cash flow growth. Regulators typically establish the rate of return such listed infrastructure companies can earn on their capital investments, which has typically been higher than the companies' cost of capital.

Lower Historical Volatility than Other Major Equity Investments

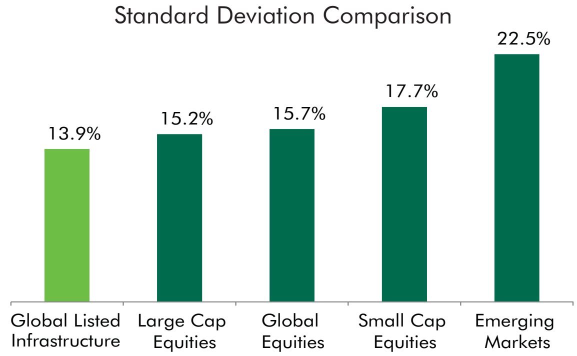
Listed infrastructure's historical returns look even more attractive when you look at the asset class' historical volatility and compare it with other types of stocks. As measured by standard deviation, listed infrastructure was significantly less volatile than other major equity investments, including U.S. large-cap stocks (Exhibit 5).

Portfolio Diversification

Historically, listed infrastructure has contributed to portfolio diversification and portfolio-level risk-adjusted returns. The global universe of listed infrastructure securities includes a diverse opportunity set of industry sectors that are affected by the economic conditions, regulatory trends, and supply/demand dynamics that are unique to the local markets and sectors in which they operate. As a result, there has historically been a wide disparity of returns generated across the listed infrastructure sectors (Exhibit 6). The gap between the returns for the top-performing and the bottom-performing sectors has exceeded 3000 basis points (30 percent) in the six years from 2010 through 2015. For example, airports returned 6.9 percent vs. -32.6 percent for midstream/pipelines in 2015. The range of total return outcomes may further enhance an active manager's ability to generate attractive total returns while mitigating risk.

Global infrastructure's historical returns look even more attractive when you look at the asset class' historical volatility and compare it with other types of stocks.

Exhibit 5: Listed Infrastructure May Provide Less Volatility than Major Asset Classes



Standard deviation is calculated for the period beginning January 1, 2003 and ending May 31, 2016.

Exhibit 6: Variability of Sector Performance Enhances Portfolio Diversification and Creates Opportunities for Active Management

Infrastructure Calendar Year Total Return by Sector

2010	2011	2012	2013	2014	2015
Midstream/Pipelines 35.9%	Regulated Electric 17.5%	Airports 65.7%	Rail 36.4%	Regulated Electric 25.8%	Airports 6.9%
Airports 28.3%	Midstream/Pipelines 13.9%	Communication 39.3%	Toll Roads 32.4%	Rail 23.8%	Water 6.6%
Ports 27.2%	Rail 12.0%	Ports 26.3%	Midstream/Pipelines 27.6%	Water 20.3%	Gas Distribution 3.1%
Rail 26.8%	Airports 7.2%	Toll Roads 19.1%	Water 24.0%	Communication 16.9%	Toll Roads 2.4%
Communication 11.1%	Ports 5.6%	Water 18.9%	Airports 17.8%	Integrated Electric 10.7%	Communications 2.4%
Regulated Electric 10.2%	Communication 4.6%	Gas Distribution 12.2%	Integrated Electric 13.9%	Gas Distribution 9.3%	Regulated Electric -1.8%
Gas Distribution 8.6%	Gas Distribution 3.5%	Rail 10.4%	Regulated Electric 12.2%	Airports 8.8%	Integrated Electric -2.6%
Water 4.5%	Toll Roads -3.1%	Regulated Electric 8.2%	Gas Distribution 12.0%	Midstream/Pipelines 4.8%	Rail -15.6%
Toll Roads -3.1%	Integrated Electric -12.9%	Midstream/Pipelines 4.8%	Communication 9.6%	Toll Roads 1.5%	Ports -21.1%
Integrated Electric -6.5%	Water -26.1%	Integrated Electric -1.8%	Ports -3.5%	Ports -10.3%	Midstream/Pipelines -32.6%

Index data prior to 2015 is represented by UBS Global Infrastructure & Utilities 50/50 Index; 2015 data is represented by UBS Global Infrastructure & Utilities 50/50 Index; beginning March 1, 2015, FTSE Global Core Infrastructure 50/50 Index – net of withholding tax as of 12/31/2015 in USD. Data represent annual returns for sectors defined by CBRE Clarion, based on constituents of the FTSE Global Core Infrastructure 50/50 Index and Alerian MLP Index.

Attractive Risk-Adjusted Returns

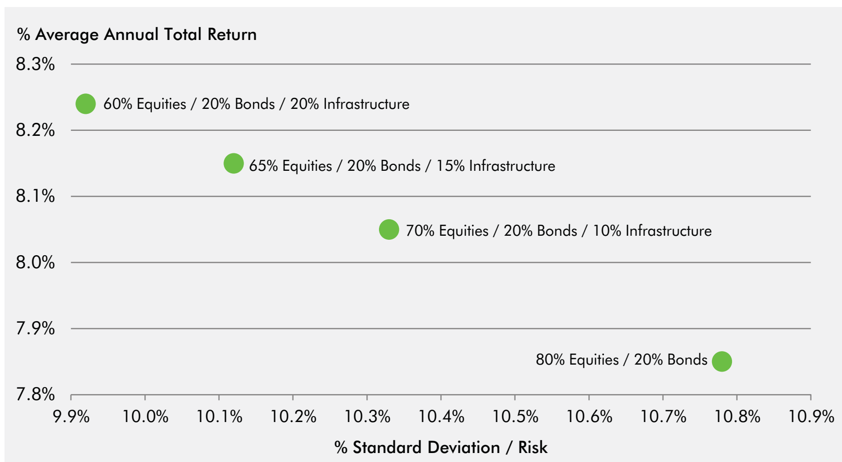
The combination of attractive returns and lower volatility means that listed infrastructure may provide stability and reduce portfolio risk as part of a well-diversified portfolio. Adding listed infrastructure, while reducing the allocation to global equities, may enhance a global portfolio's risk-adjusted returns (Exhibit 7).

Compare Portfolio 4 (an 80:20 split between global equities and global bonds) with Portfolio 1 (60 percent global equities, 20 percent bonds, and 20 percent listed infrastructure). With Portfolio 1, average annual total return rose to 8.2 percent from 7.9 percent, while standard deviation fell below 10.0 percent from 10.8 percent.

The combination of attractive returns and lower volatility suggests that global infrastructure should be a key component of a well-diversified portfolio.

Exhibit 7: Listed Infrastructure May Enhance a Portfolio's Risk-Adjusted Return

Risk/ Return Profile



	Portfolio Allocation
Portfolio #1	60% Equities, 20% Bonds, 20% Infrastructure
Portfolio #2	65% Equities, 20% Bonds, 15% Infrastructure
Portfolio #3	70% Equities, 20% Bonds 10% Infrastructure
Portfolio #4	80% Equities, 20% Bonds, 0% Infrastructure

All data is annualized and calculated for the period beginning January 1, 2003 and ending May 31, 2016
Global Bonds: Barclays Global Aggregate Bond Index, Global Equities: S&P Developed BMI Index, Global Infrastructure: UBS Global Infrastructure & Utilities 50/50 Index; beginning March 1, 2015, FTSE Global Core Infrastructure 50/50 Index. All indices are hedged to USD.

INVEST FOR RISK-ADJUSTED RETURNS, INCOME, AND DIVERSIFICATION

The historical combination of attractive returns and lower volatility than other equity investments means that listed infrastructure has produced attractive risk-adjusted returns. Investor acceptance of this growing asset class is gaining momentum due to the risk-adjusted benefits to a mixed asset portfolio. Investors also appreciate the income and diversification potential of this asset class, along with the transparency and liquidity of listed infrastructure. We welcome the opportunity to share our capabilities at CBRE Clarion Securities for investment into this attractive asset class

cbreclarion.com

Contact us

In Australia, please contact UBS Asset Management to get more information on the UBS Clarion Global Infrastructure Securities Fund

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Past performance of various investment strategies, sectors, vehicles and indices are not indicative of future results. Investing in infrastructure securities involves risk including to potential loss of principal. Infrastructure equities are subject to risks similar to those associated with the direct ownership of infrastructure assets. Portfolios concentrated in infrastructure securities may experience price volatility and other risks associated with non-diversification. While equities may offer the potential for greater long-term growth than some debt securities, they generally have higher volatility. 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. There is no guarantee that risk can be managed successfully. There are no assurances performance will match or outperform any particular benchmark. Indices are unmanaged and not available for direct investment.

[1]Dobbs, R., Pohl, H., et al. (January 2013), "Infrastructure Productivity: How to Save $1 Trillion a Year", McKinsey Global Institute, © McKinsey & Company. http://www.mckinsey.com/insights/engineering_construction/infrastructure_productivity.

The U.S. Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The Barclays Global Aggregate Index provides a broad-based measure of the global investment grade fixed-rate debt markets. The Global Aggregate Index contains three major components: the U.S. Aggregate (USD 300mn), the Pan-European Aggregate (EUR 300mn), and the Asian-Pacific Aggregate Index (JPY 35bn). In addition to securities from these three benchmarks (94.0% of the overall Global Aggregate market value as of December 31, 2010), the Global Aggregate Index includes Global Treasury, Eurodollar (USD 300mn), Euro-Yen (JPY 25bn), Canadian (USD 300mn equivalent), and Investment Grade 144A (USD 300mn) index-eligible securities not already in the three regional aggregate indices. The Global Aggregate Index family includes a wide range of standard and customized subindices by liquidity constraint, sector, quality, and maturity. A component of the Multiverse Index, the Global Aggregate Index was created in 1999, with index history backfilled to January 1, 1990.

The MSCI ACWI IMI Index captures large, mid and small cap representation across 23 Developed Markets (DM) and 23 Emerging Markets (EM) countries. With 8,622 constituents, the index is comprehensive, covering approximately 99% of the global equity investment opportunity set.
The UBS Global Infrastructure & Utilities 50-50 Index is a derivative of the UBS Developed Infrastructure & Utilities Index. The infrastructure sector and the utilities sector each have a 50% weighting in terms of free-float market capitalization, which removes the skew towards utilities found in the UBS Developed Infrastructure & Utilities Index. Constituents of the index are all listed in developed markets.

The FTSE Global Core Infrastructure 50/50 Index gives participants an industry-defined interpretation of infrastructure and adjusts the exposure to certain infrastructure sub-sectors. The constituent weights for these indices are adjusted as part of the semi-annual review according to three broad industry sectors – 50% Utilities, 30% Transportation including capping of 7.5% for railroads/railways and a 20% mix of other sectors including pipelines, satellites and telecommunication towers. Company weights within each group are adjusted in proportion to their investable market capitalization.

Risk Statistic Definitions: Standard Deviation is a statistical measure of the historical volatility of the portfolio. Sharpe Ratio is a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. Dividend yield is the yield a company pays out to its shareholders in the form of dividends. It is calculated by taking the amount of dividends paid per share over the course of a year and dividing by the stock's price. PA06202016