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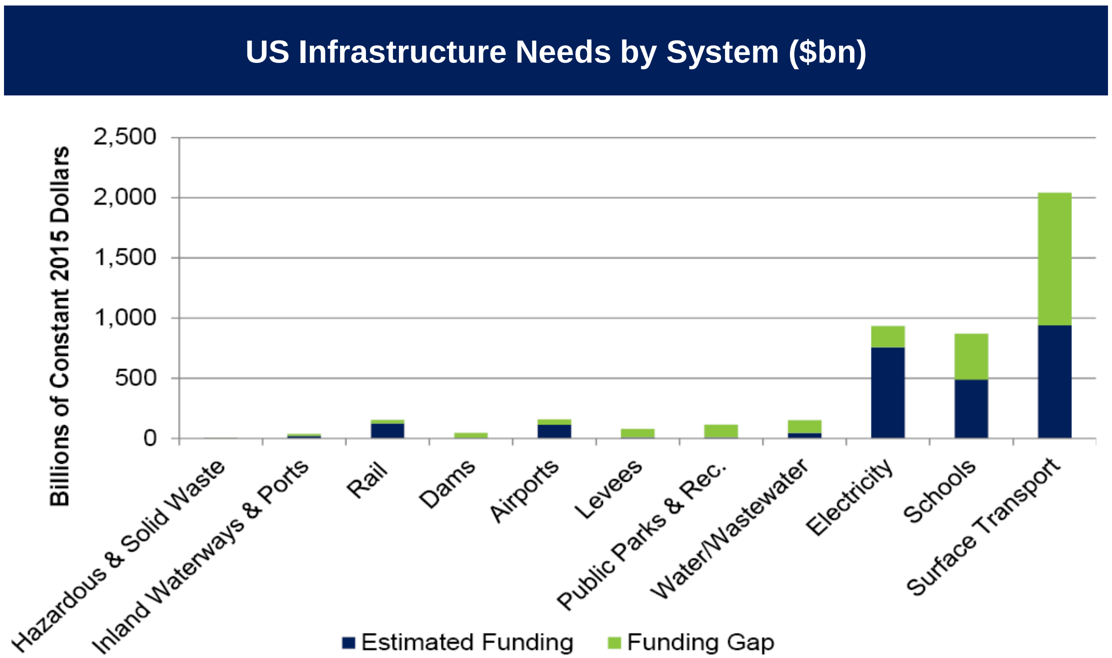
Surveying Infrastructure: Funding & Investing Thoughts

October 2018

Infrastructure at the Crossroads: Moving the Discussion Forward

- We have seen significant public funding issues:
  - Politics of taxes – income, property, gasoline, etc.
  - Disparate state/regional infrastructure conditions, federal/state regulatory/oversight interaction and funding
  - 2-4 year election cycles vs 50 year infrastructure life
  - Traditional view of infrastructure as a public good – don't call it privatization!
- US has seen far less privatization than others – untangling the Gordian knot



Source: ASCE, 2017 Infrastructure Report Card

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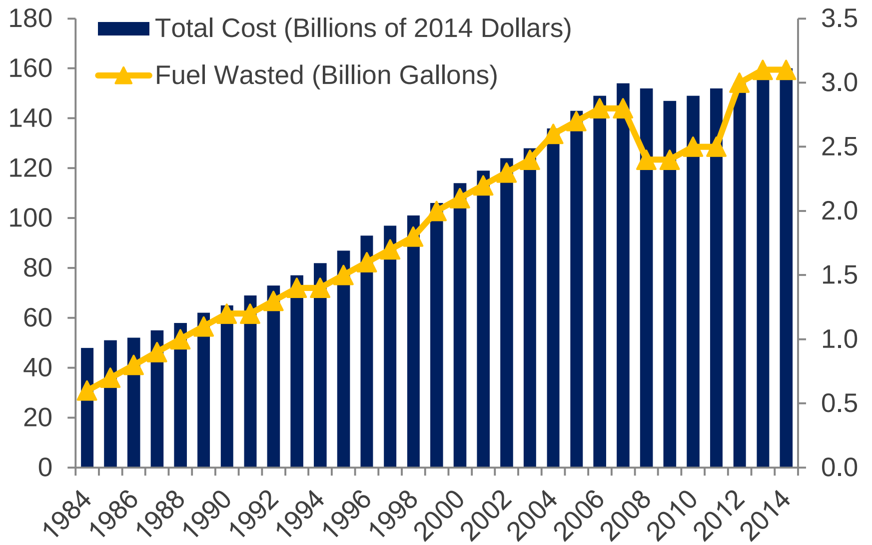
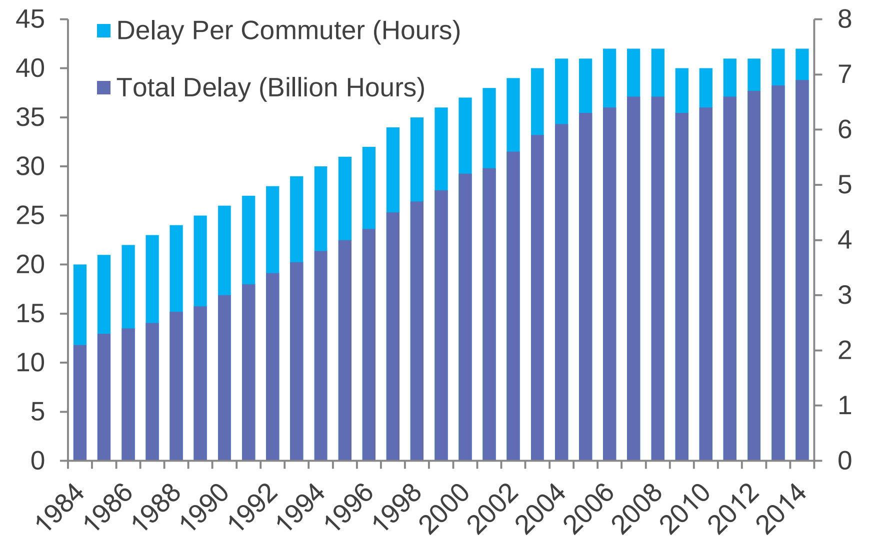
US Infrastructure Costs: Where We Stand

- Impacts of our dilapidated infrastructure:
  - 0.8% GDP lag annually - $160bn of wasted productivity
  - 3 billion gallons of gasoline; 60 billion pounds, or 30 million tons of CO_2 –
    - Equivalent to 6.5 million cars/year
  - 7 billion wasted hours – 42 hours/person
    - 1 wasted working week per person in the US!

Economic & Resource Impacts of Congestion



Delays & Time Wasted



Source: ASCE, 2017 Infrastructure Report Card

A Solution is Needed

- Higher taxes vs user fees
- Confronting the reality of the vanishing gasoline taxes – driverless cars, hybrids, EVs
- Dealing with rural communities and assets – how to pay where tolls won't work?
- Unlocking the asset recycling model – social infrastructure, rural needs, etc.
- Reducing both capital and operating costs
- Economic benefits – blue collar jobs, lower congestion, reduced cost of goods
- Social benefits – jobs, quality of life, reducing public financing burden elsewhere (schools, pensions, etc.)
- Improved operational efficiencies
- Reduced operating and capital strain on public finances
- Balancing reduced fee generation with reduced expenses, new source of tax revenue
- Concessions $\neq$ asset sales

Major Debates Surrounding Infrastructure Privatization

Loss of Government Revenues	Higher User Fees/Rising Cost Burden	Selling Public Assets
• **Solutions/Answers:** • Reduced/eliminated operating and capital expenses • Material up-front concession payment • Ongoing lease payments • Potential addition of property tax revenues • Concession expiration/re-tendering	• **Solutions/Answers:** • Reduced need for general tax revenue support • Improved operations likely to improve user experience • Targeted/user fee structure much easier to position • Managed lane options on tolled roads • Economic benefits from lower congestion • Environmental benefits	• **Solutions/Answers:** • Concessions are not sales • Ability to re-tender • Position user fee vs general tax discussion • Job gains in construction/engineering could last 10 or more years • Ownership by local investors could be attractive option

Fighting perception and tradition requires escape velocity

Enticing Stronger Capital Flow

- Private capital will bear the risks associated with valuations, projections, financing – removing this burden from taxpayers
- REIT and MLP model has raised over $1 trillion for real estate and energy by attracting investors with tax advantages that lower cost of capital and incentivize investment
  - No real estate or pipeline underinvestment in the US
- Expand current structures to include infrastructure, or create de novo vehicle/legislation
- Fitting infrastructure into qualifying income and qualifying assets definitions
  - Commodity linkages, real estate ownership, distribution requirements all issues to be tackled
- Potential addition of billions of dollars of asset values onto property tax rolls, or new revenues from ongoing structured lease/concession payments
- Infrastructure Investment Trust potential definition:

90% of gross income must be considered qualifying income from revenues associated with the transmission, transportation, and/or distribution of energy, power, data, and/or vehicles (air, sea, road, rail)

Listed Infrastructure Investment Structures

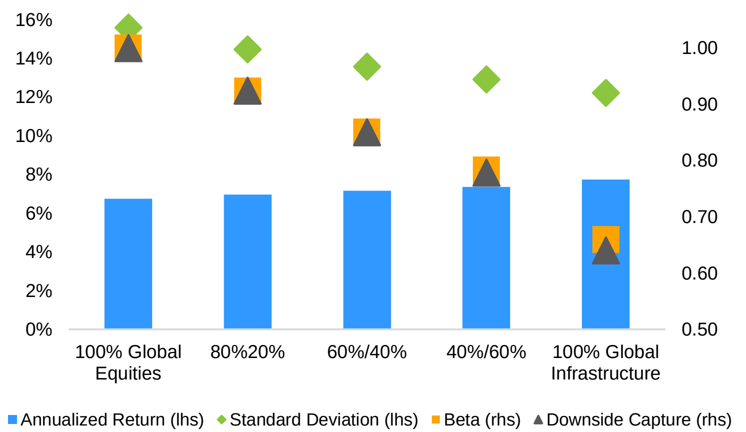
	REIT	MLP	Infrastructure Investment Trust (Proposed)
Purpose	Allow broad access to income producing real estate	Allow broad access to income producing energy infrastructure	Allow broad access to income producing infrastructure and infrastructure development
Legislative formation	REIT Act contained in the Cigar Excise Tax Extension of 1960, REIT Modernization Act of 1999	Tax Reform Act of 1986 (Section 7704 of the Internal Revenue Code of 1986); QI restrictions amended in 1988, 2008, and 2017	De novo structure per an infrastructure bill, or an evolution of the REIT or MLP structure
Distribution requirements	Distribute at least 90% of taxable net income as distributions to shareholders	No distribution requirement, but nearly all entities distribute the majority of cash flow	No distribution requirement; allow flexibility to incentivize investment
Qualifying assets	Have at least 75% of assets in real estate (real property or loans secured by property)	Minerals or natural resource-related assets, including those dedicated to storage, transportation, production, processing, and refining	Transportation/distribution of energy, power, data, vehicles (air, sea, road) including the ownership of 1) electric, gas, and water utilities, 2) telecommunication/data architecture, and 3) freight and passenger railways, airports, seaports, bridges, and toll roads
Qualifying income (existing)	Derive at least 75% of gross income from real estate income (rents or interest from mortgages), have no more than 25% of assets invested in stocks of taxable REIT	90% of gross income must be considered qualifying income, deriving from the assets described above	N/A
Qualifying income (proposed)	Broaden the accepted definition of rent to include any payment for use of real property including fees and tolls	Broaden the accepted definition of rent to include any payment for use of real property including fees and tolls	90% of gross income must be considered qualifying income from revenues associated with transmission, transportation and/or distribution of assets described above
Ownership	Minimum of 100 shareholders; no more than 50% of shares held by five or fewer individuals	Two tier structure with a GP and LP. Typically, half of the MLP is held by the sponsor/GP.	Widely held
Taxation	Dividend paid deduction means up to 100% of earnings not taxed at the corporate level; distributions include pass through of depreciation	Pass-through entity with zero federal income taxes; distributions to unitholders are a return of capital and tax-deferred	Dividend paid deduction means up to 100% of earnings not taxed at the corporate level; distributions include pass through of depreciation; any losses from infrastructure development can be offset against ordinary income

Summary

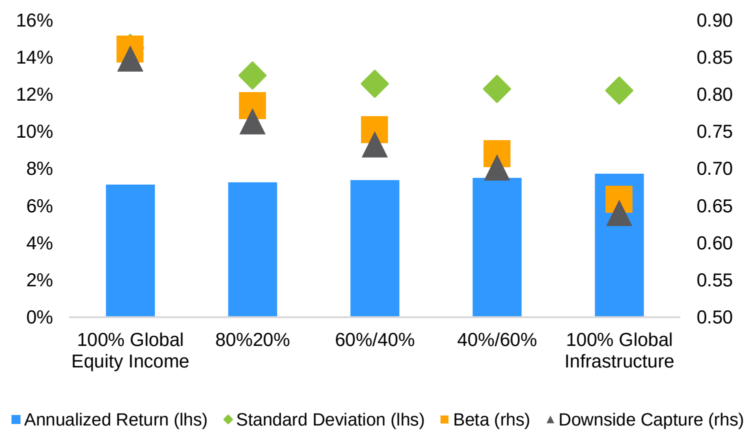
- America’s infrastructure has lacked sufficient investment for 4-5 decades
- Sub-optimal infrastructure causing significant drag on potential economic growth
- Deepest capital markets, yet largely untapped for entire segments of infrastructure
- Private participation in telecom, energy, and utilities has led to improved asset condition and larger tax base – with no drag on public balance sheets
- Transportation in particular stands out as lacking appropriate investment and could see biggest impact economically and fiscally
- Using REIT and MLP models as blueprints, means exist to access private markets, recycle capital, add jobs, and help economic growth

Potential to Enhance Late-Cycle Equity Risk & Returns

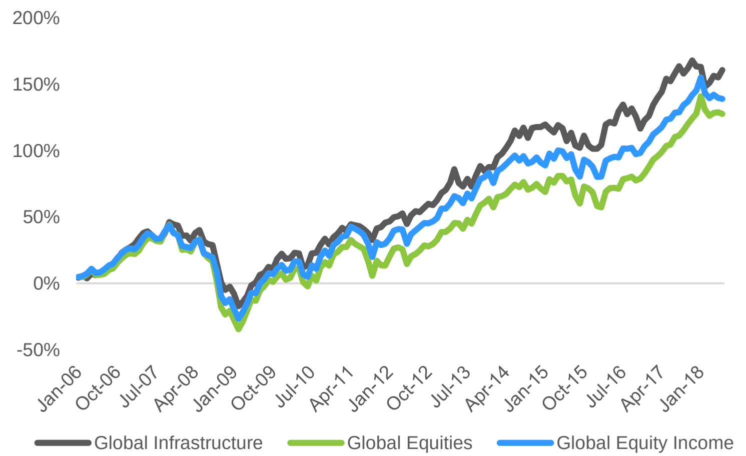
Infrastructure vs. Global Equities



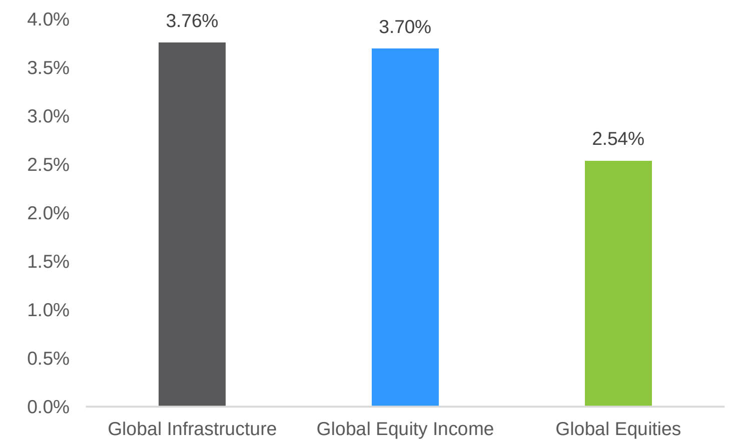
Infrastructure vs. Global Equity Income



Competitive Returns Even During Long Bull Market



Strong Relative Yield Vehicle



Source: Bloomberg, eVestment Alliance, CenterSquare, as of June 30, 2018. Asset class returns are calculated using established indices as proxies. A full list of these indices and their definitions is provided at the end of this document. Portfolio blends refer to hypothetical combinations of two indices as stated. Yields reported for Global Infrastructure and Global Equities are based on the 1 year dividend yield of the index, while the Global Equity Income yield is the 1 year dividend yield on the median global equity income strategy reported by eVestment Alliance as of June 30, 2018.
Past performance is not indicative of future results. Refer to hypothetical performance disclosures on the end of this presentation.

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Hypothetical or simulated performance results have certain inherent limitations and actual results may differ. The Portfolio blends presented on page 18 represent custom blends of two indices to produce a set of return, volatility and other metrics for the period stated. The hypothetical portfolio simulations presented do not reflect investment management fees.

Unlike an actual performance record, simulated results do not represent actual trading. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Also, since the trades have not actually been executed, the results may have under or over compensated for the impact of certain market factors. In addition, hypothetical trading does not involve financial risk. No hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of the trading losses are material factors which can adversely affect the actual trading results. There are numerous other factors related to the economy or markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results, all of which can adversely affect trading results. The total returns presented are gross of investment management fees. Fees will reduce investor returns. For example, an account with a compounded annual return of 10% would have increased by 159% over 10 years. Assuming an annual advisory fee of 0.85%, this increase would be 140%.

Within this presentation, asset class risk and returns are presented using established indices as proxies. A full list of these indices is below:

Global Equities: MSCI ACWI Index

Global Infrastructure: For periods after 12/31/2005, FTSE Developed Core Infrastructure 50/50 Index. For periods prior to 12/31/2005, Dow Jones Brookfield Global Infrastructure Index.

Global Equity Income: There is no generally accepted representative index for the Global Equity Income allocation, therefore we have used the universe of global equity income managed strategies as reported by eVestment Alliance as of June 30, 2018. When group level information was not available, we used the BlackRock Fundamental Global Dividend Strategy, the strategy with the closest return metrics to the median of the group.

Definition of Indices

FTSE Developed Core Infrastructure 50/50 Index

The FTSE Global Core Infrastructure 50/50 Index and FTSE Developed Core Infrastructure 50/50 Index give participants an industry-defined interpretation of infrastructure and adjust 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.

MSCI ACWI Index

The MSCI ACWI Index, MSCI's flagship global equity index, is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 24 emerging markets.It covers more than 2,400 constituents across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market.

These benchmarks are broad-based indices which are used for illustrative purposes only and have been selected as they are well known and are easily recognizable by investors. However, the investment activities and performance of an actual portfolio may be considerably more volatile than these indices and may have material differences from the performance of any of the referenced indices. Unlike these benchmarks, actual portfolios are actively managed. Furthermore, actual portfolios may invest in substantially fewer securities than the number of securities comprising each of these benchmarks. There is no guarantee that any of the securities invested in by actual portfolios comprise these benchmarks. Also, performance results for benchmarks may not reflect payment of investment management/incentive fees and other expenses. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison.

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