Cohen & Steers Global Listed Infrastructure Strategy

The global infrastructure securities market, as represented by the FTSE Global Core Infrastructure 50/50 Net Tax Index, had a total return in U.S. dollars of 18.5% in 2017.

Investment Review

Global equities climbed to all-time highs in 2017, aided by synchronized global growth, low interest rates and the prospect of U.S. tax cuts. The U.S. economy accelerated toward 3% annualized growth and consumer confidence neared a 20-year high. Europe grew at its fastest pace in a decade following years of moderate recovery. Within Asia Pacific, China's GDP growth continued to moderate, although it remained near 7% and the country's industrial sector showed steady expansion. Growth in Japan picked up from lackluster levels, with improvements in both manufacturing and services.

Cyclical infrastructure sectors led. Global listed infrastructure achieved strong returns in this environment, but lagged the broad equity market. Transportation sectors performed especially well, including airports, marine ports, toll roads and railways. The more-defensive and interest-rate-sensitive utilities sector underperformed. Midstream energy was the only sector to post a negative return for the year, as companies, and investors, adjusted to the sector's diminished cash-flow-growth outlook.

Index Performance by Sector

Sector	Q4 2017	YTD 2017
Airports	8.69 %	37.05 %
Toll Roads	5.13 %	28.71 %
Communications	5.27 %	27.64 %
Marine Ports	0.66 %	27.12 %
Railways	6.91 %	26.77 %
Diversified	-5.65 %	18.43 %
Water	7.46 %	17.26 %
Electric	-0.27 %	9.48 %
Gas Distribution	-2.61 %	6.73 %
Midstream	-1.45 %	-1.48 %

Source: Cohen & Steers.

Data quoted represents past performance, which is no guarantee of future results. This information is not representative of any Cohen & Steers account and no such account will seek to replicate an index. You cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes.

Strong showing for tower companies amid secular tailwinds. Although tower companies tend to be less cyclical, they nonetheless delivered sizable returns for the period, in both the U.S. and Europe. These companies continued to benefit from a strong secular tailwind of demand from wireless carrier tenants, derived from the explosive growth in mobile data usage.

Tower companies saw some tenant concerns arise as Sprint and T-Mobile negotiated a possible merger, as investors feared that a combined entity of these major tenants would likely result in tower site overlap and eventual rationalization. However, these worries not only faded as the merger appeared unlikely, but the tenant outlook brightened as Sprint announced plans to become a stronger standalone entity by spending more to build out its network.

Significant private investment demand supporting valuations. Demand for infrastructure investments remained high. According to Preqin (a leading provider of data on alternative assets), private infrastructure funds held more than $150 billion in uninvested capital waiting to be deployed, compared with $109 billion at the end of 2015. Facing a competitive environment for the relatively few assets available for sale, private transactions have generally occurred at significant premiums to the market-implied cash-flow multiples of listed infrastructure companies. In a recent example within North America pipelines, BlackRock's private infrastructure team announced in November that it would acquire the Glass Mountain Pipeline at an estimated 18x projected cash flows—compared with a 11–13x cash-flow multiple for most public midstream energy companies.

Considering the significant backlog of capital, we expect investors and private infrastructure funds may increasingly look to listed companies as a way to gain access to infrastructure at better prices, providing potential support to listed company valuations. Additionally, the premiums paid by private investors may provide an uplift to listed company valuations.

Sector Highlights

- The airport sector (37.1% total return in the index[1]) was a positive standout, benefiting from healthy year-over-year passenger volume growth. European companies Aeroports de Paris and Spain-based AENA had sizable gains, boosted by improving regional economic data and an easing of political risk.
- Toll roads (28.7%) had broad gains across Europe and Asia Pacific, supported by increasing vehicle traffic amid a healthier economic environment.

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- Railways (26.8%) were led higher by U.S. freight carriers, which benefited from improving economic growth and the move toward tax reform. Lower corporate taxes should give freight rail companies a large earnings boost, as they pay some of the highest effective tax rates among infrastructure businesses. In addition, full expensing of capital investment would allow rail companies to fully write off spending, reducing their up-front tax burden.
- In the communications sector (27.6%), tower companies benefited from favorable growth prospects stemming from continued increasing data demand.
- Electric utilities (9.5%) and gas distribution companies (6.7%) underperformed, as investors targeted other sectors with better growth prospects. Utilities also tend to be more sensitive to rising interest rates, which appeared poised to move higher.
- Midstream energy stocks (–1.5%) were under pressure for much of the year, reflecting uncertainty around distribution cuts and expectations for slowing distribution growth as certain companies took steps to become more self-funding. However, the group ended the year on a positive note, rising in response to OPEC's (the Organization of Petroleum Exporting Countries) announcement that it would extend oil production cuts through the end of 2018.

Portfolio Performance

The portfolio had a positive total return for the year and outperformed its benchmark, with the exception of Class C shares, which slightly underperformed. Stock selection in the midstream energy sector contributed to relative performance. We did not own Enbridge as it struggled through November, with investors seeking clarity on its funding plans. We then purchased the stock after the company announced that it would raise equity and reduce its dividend growth guidance to a more achievable level—and it performed well in December. In addition, we had an out-of-index allocation to Cheniere Energy, which benefited from the ramp-up of liquefied natural gas (LNG) exports and plans for the continued build-out of its LNG facilities.

Stock selection in the electric utilities sector also aided performance, in part due to our underweight in California-based PG&E. The stock had a sizable decline amid concerns about the company's potential liability for damage caused by recent wildfires in the state. The Fund's underweight in electric utilities as a group was an additional benefit. Stock selection in the communications, gas distribution and airport sectors aided relative returns as well.

Factors that detracted from relative performance included stock selection in the diversified sector (18.4% total return in the index). We had an overweight position in Macquarie Infrastructure that declined. The company's third-quarter earnings results, which were generally in line with guidance, were coolly received, even as Macquarie announced another increase in its dividend. Stock selection in the toll roads and railways sectors also hindered performance.

Investment Outlook

We continue to view prospects for the asset class favorably. The infrastructure cash-flow multiple is above the long-term average, but we believe this is justified, given 1) a continuation of broadly accommodative monetary policy (despite tightening in key developed markets); 2) strong economic conditions; and 3) upward pressure on valuations as private capital is deployed.

We remain particularly constructive toward Continental Europe, where strengthening labor market conditions are bolstering consumer confidence. We are somewhat more cautious toward the U.S., as it stands at a later stage in the economic and monetary cycles than other markets. We look for interest rates to climb gradually in developed markets worldwide in response to sustained economic growth, reduced monetary stimulus, and in light of modestly rising inflation.

U.S. water utilities offer the potential for accelerating growth. Critical pipeline replacement projects across the U.S. should drive significant growth for water utilities, with the consolidation of the largely municipally owned sector a further tailwind. U.K. water utilities have underperformed, due, in our view, to investors pricing in the risk inherent in the upcoming regulatory rate review process.

Secular tailwinds for towers. U.S. and European tower owners, in our view, are well-positioned to benefit from strong long-term secular demand growth for wireless data services and the adoption of 5G, small cells and other technologies to handle the increasing data usage. The sector's valuations remain attractive relative to our growth expectations.

Railways' strong long-term outlook but near-term challenges. The outlook for freight railways in 2018 and beyond continues to be challenged by tough upcoming year-over-year freight volume comparisons and recent pricing trends for the industry. In light of this, and stretched valuations, we have become somewhat more cautious toward freight rail stocks.

Midstream energy sector in transition. The growth in North American energy production volumes is driving a positive shift in the fundamental cycle for midstream energy companies, translating into continued cash-flow-growth. While competitive

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conditions remain challenging, more companies are taking steps to reduce downside risk by strengthening balance sheets, increasing distribution coverage ratios, and being less reliant on capital markets to fund their growth. These efforts, combined with more attractive valuations, have led us to raise our sector allocation.

Airports outlook encouraging, but sector remains expensive. Despite their strong fundamentals, we remain wary of airports, particularly in Europe, where year-over-year passenger volume comparisons are likely to become more difficult and may drive underperformance.

Electric utilities at risk from rising rates. We generally maintain a cautious stance toward U.S. electric utilities, due to their modest growth prospects, company-specific regulatory issues and vulnerability to rising interest rates.

(1) All sector returns in this commentary are in local currencies. Sector classification of securities in the index is determined by the investment advisor.

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The S&P 1500 Utilities Index is an unmanaged market-capitalization-weighted index of companies for which the primary business involves the generation, transmission and/or distribution of electricity and/or natural gas.

The Macquarie Global Infrastructure Index, calculated and managed by FTSE, is designed to reflect the stock performance of infrastructure companies, principally those engaged in the management, ownership and/or operation of infrastructure and utility assets.

The UBS Global 50/50 Infrastructure & Utilities Index - Net tracks a 50% exposure to the global developed market utilities sector and a 50% exposure to global developed market infrastructure sector. The index is free-float market-capitalization weighted and reconstituted annually with quarterly rebalances and is net of dividend witholding taxes.

The FTSE Global Core Infrastructure 50/50 Net Tax Index is a market-capitalization-weighted index of worldwide infrastructure and infrastructure-related securities and is net of dividend withholding taxes. Constituent weights are adjusted semi-annually according to three broad industry sectors: 50% utilities, 30% transportation, and a 20% mix of other sectors, including pipelines, satellites, and telecommunication towers.

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