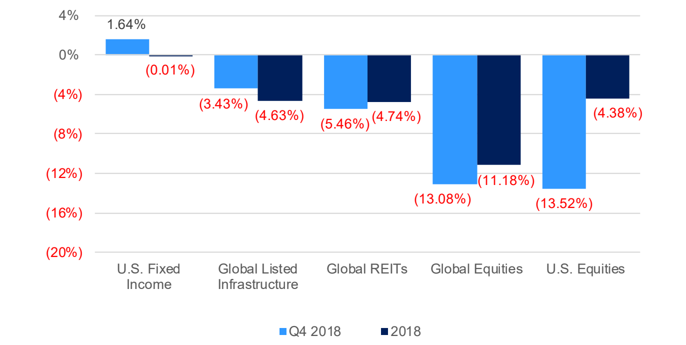
LISTED INFRASTRUCTURE INSIDER

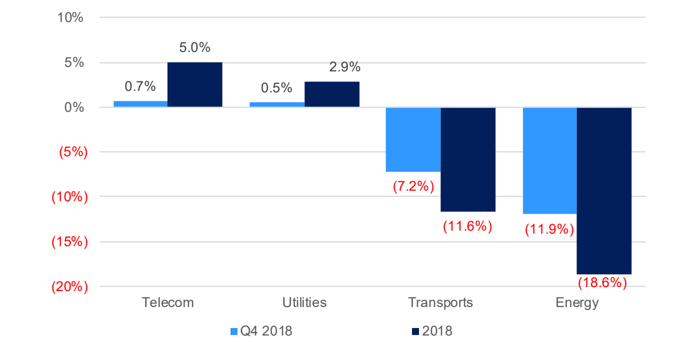
CenterSquare
REAL ASSET INVESTMENT LEADERSHIP

January 2019

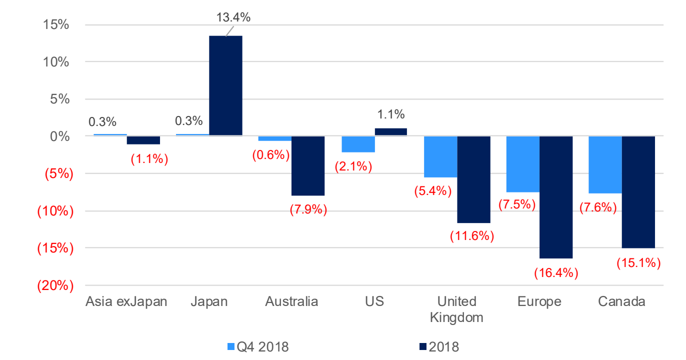
Total Returns by Asset Class [1]



Total Returns by Sector [2]



Total Returns by Region [3]



Infrastructure Holds Steady in 2018, Outperforms Global Equities

With fears rising about the duration of the global economic cycle, increased risk from trade wars, and geopolitical uncertainty in Europe, a tumultuous fourth quarter of 2018 has highlighted the benefits of infrastructure. Infrastructure companies tend to offer steady, secure growth, with inflation-linked cash flows with high levels of demand inelasticity. As a result, they hold up well during times of market stress, while offering exposure to the growing need to move more people, data, and goods throughout cycles. These characteristics benefited the asset class in the fourth quarter, when global listed infrastructure, as measured by the FTSE Developed Core 50/50 Infrastructure Index, outperformed global equities by ~10%. During this period, CenterSquare's Listed Infrastructure strategy outperformed its benchmark by 48bps, offering 234bps excess return for the year. Looking ahead to 2019, we see the asset class continuing to offer compelling risk-adjusted growth.

Utilities

Politics and the prospects for changing regulation continue to inform the outlook for a sector that does well in times of market stress. Utilities provided a positive return in the fourth quarter of 2018, as interest rates fell and investors sought stability. Indeed, utilities performed well nearly across the globe: in the US, regulated names benefited from broader sector fund flows, while merger approvals also boosted returns for select equities; in Europe, Continental companies benefited from a flight to safety, but UK utilities underperformed due to uncertainty around Brexit and currency weakness. Looking ahead, we continue to see opportunities to generate excess performance. Wildfires in California have nearly bankrupted one US utility, but the surviving companies are likely to benefit from a legislative fix

Refer to footnote disclosures on Page 3.

for future wildfire liabilities. Improving regulatory environments, receding regulatory and construction risks, and business changes and simplifications provide opportunities in select utility equities to which the strategy has exposure. Abroad, we see opportunities in higher growth Continental utilities that are benefiting from a regulatory honeymoon in their key jurisdictions, with a good outlook for integrated earnings as well. Lastly, we see emerging opportunities for alpha in the UK. Despite the continued uncertainties surrounding Brexit, divergent cash flow trends amongst the group should offer fodder for good stock-picking.

Transports

The fourth quarter showcased our strategy's ability to generate alpha. Our largest contributor in alpha came from a Swiss airport in our benchmark which fell over 20% due to a changing outlook for regulated returns. We identified this potential risk during our underwriting and avoided the stock as a result. In the fourth quarter, we also generated alpha from good stock-picking in Australia, as we exited an investment in a holding company prior to disappointing subsidiary traffic data, and announcements by peers which reduced the chance for an M&A takeout of the company. Looking forward to 2019, we continue to expect to benefit from stock-picking in transports as opposed to outright allocation bets. While there are some opportunities for a sector tilt, given the depressed trading of cyclicals toward the end of 2018, we are appreciative of the length of the economic cycle and the specter of slowing growth amongst transports. As a result, we expect to be cautious in making a big macro call and continue to expect to deliver outperformance as a result of our bottom-up stock-driven process.

Energy

In the fourth quarter, the energy sector saw the largest downdraft to fears surrounding the macro economic cycle; in total, the sector underperformed the benchmark return by 9%. A perfect storm hit the midstream equities: early in the fourth quarter, President Trump reduced the potential for large sanctions on Iranian crude exports, nearly immediately after Saudi Arabia and Russia had increased their production levels to potentially compensate. This supply surge occurred while the US grew liquids at its highest pace in decades, and almost immediately before a deterioration in global macroeconomic sentiment that diminished the prospects for continued global oil demand growth. As a result, crude oil prices, as measured by Brent, fell over 30%. However, despite these headwinds, our strategy held even with the benchmark return in the fourth quarter, and the sector remained our largest alpha contributor for 2018 overall. Looking ahead into 2019, we expect to benefit from a rebound in sentiment for global growth, the prospects of effective OPEC cuts, and slight moderation in US supply growth, all of which should steady crude oil prices. However, while some rebound is expected, the durability and strength of US supply growth should put a cap on prices in the longer-term. As a result, in a broadly range-bound environment, we expect to outperform owing to a deeper understanding of the factors influencing incremental changes to earnings. We see several companies where consensus cash flow estimates should rise over the course of the year and are maintaining active bets in those holdings.

Telecom

The primary drivers of future returns remain much the same. First, the groundwork for how U.S. telecom carriers will deploy their 5G network architecture continues to be laid, with implications for both U.S. and European equities. In the U.S., those exposed to higher growth carriers should outperform amidst a storm of potential customer mergers. Indeed, the capital expenditures that will take place over the next 3-5 years are substantial no matter who merges with whom. From a simplistic point of view, four carriers are now becoming four and a half in terms of aggregate spending. The US strength is mirrored by prospects in Europe, where those companies with exposure to the valuable US C-band frequency (3.7GHz-4.2GHz) should see the market reward that value.

Summary

A difficult ending for global equities in 2018 showcased the benefits and need for exposure to global infrastructure. We don't expect these benefits to subside any time soon. Infrastructure's combined exposure to monopolistic assets and business lines, stable secular demand growth, and appropriate blend of defensive and cyclically oriented companies, provide a backdrop for the outperformance we saw versus broad global equities in 2018 to be repeated as this cycle grows in length. As a result, we look forward to future growth from the asset class and are optimistic on reporting results in the quarters ahead.

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[1] *Source: Bloomberg, as of December 31, 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. Past performance is not indicative of future results.*

[2] *Source: Bloomberg, as of December 31, 2018, based on sector returns within the FTSE Developed Core Infrastructure 50/50 Index. A full list of indices and their definitions is provided at the end of this document. Past performance is not indicative of future results.*

[3] *Source: Bloomberg, as of December 31, 2018, based on regional returns within the FTSE Developed Core Infrastructure 50/50 Index. A full list of indices and their definitions is provided at the end of this document. Past performance is not indicative of future results.*

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Definition of Indices

U.S. Equities: S&P 500
U.S. Fixed Income: FTSE US Broad Investment Grade (USBIG) Bond Index
Global Equities: MSCI ACWI Index
Global Listed 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 REITs: FTSE EPRA Nareit Developed Total Return Index

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.

Dow Jones Brookfield Global Infrastructure Index
The Dow Jones Brookfield Global Infrastructure Index measures the stock performance of companies that exhibit strong infrastructure characteristics. The index intends to measure all sectors of the infrastructure market and is weighted by float-adjusted market capitalization. The Dow Jones Brookfield Global Infrastructure Index was first calculated on July 14, 2008.

S&P 500
The S&P 500 is an index that is considered to be a gauge of the U.S. equities market. The index includes 500 leading companies spread across the major sectors of the U.S. economy. The index focuses on the larger cap segment of the U.S. market and represents approximately 75% of the market capitalization of U.S. securities. The index is the most notable of the many indices owned and maintained by Standard & Poor's, a division of McGraw-Hill Companies.

MSCI ACWI Index
MSCI ACWI Indexes offer a modern, seamless, and fully integrated approach to measuring the full equity opportunity set with no gaps or overlaps. MSCI ACWI represents the Modern Index Strategy and captures all sources of equity returns in 23 developed and 24 emerging markets.

FTSE EPRA Nareit Developed Total Return Index
The FTSE EPRA Nareit Global Real Estate Index Series is designed to represent general trends in eligible real estate equities worldwide. Relevant activities are defined as the ownership, disposal and development of income-producing real estate. The FTSE EPRA Nareit Developed Index is designed to track the performance of listed real estate companies and REITS worldwide. By making the index constituents free-float adjusted, liquidity, size and revenue screened, the series is suitable for use as the basis for investment products, such as derivatives and Exchange Traded Funds (ETFs).

FTSE US Broad Investment Grade (USBIG) Bond Index
The FTSE US Broad Investment-Grade Bond Index (USBIG) measures the performance of US Dollar-denominated bonds issued in the US investment-grade bond market. Introduced in 1985, the index covers US Treasury, government sponsored, collateralized, and corporate debt providing a reliable representation of the US investment-grade bond market. Sub-indexes are available in any combination of asset class, maturity, and rating.

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