CBRE INVESTMENT MANAGEMENT

GLOBAL INFRASTRUCTURE STRATEGY
STRATEGY COMMENTARY
Q2 2021

MARKET PERFORMANCE REVIEW

Listed infrastructure traded up 2.9% (USD) in 2Q21. Europe and North America led returns for the quarter, up 5.9% and 3.2%, respectively, with the U.K. a notable outperformer, up nearly 10%. Asia-Pacific trailed predominantly due to poor returns out of Japan, down more than 9%, while Emerging Markets performed in-line. Sovereign yields mostly declined gradually in Q2 although remain noticeably higher compared to the start of the year. Crude oil continued its momentum higher along with most commodities as inflation numbers ticked higher and became more of a focal point across the market.

Communication stocks were the biggest contributor to returns and was the best performing sector across developed markets in Q2. Midstream extended its rally from Q1 and was again a noticeable outperformer this quarter. Transportation stocks lagged in every region although in the Asia-Pacific region, the Australian toll roads helped bolster the group. Utilities were mixed – outperforming in Europe and Emerging Markets and trailing in Asia-Pacific and the Americas.

FTSE GLOBAL CORE INFRASTRUCTURE 50/50 INDEX (USD, NET) PERFORMANCE AS OF JUNE, 30 2021

REGION/COUNTRY	3 Month	YTD	1 Year
World	**2.9%**	**7.1%**	**18.5%**
North America	**3.2%**	**9.3%**	**19.6%**
Canada	6.1%	20.3%	32.2%
United States	2.7%	7.6%	17.6%
Europe	**5.9%**	**4.8%**	**21.3%**
Cont. Europe	4.6%	2.3%	22.6%
United Kingdom	9.7%	12.7%	16.6%
Asia-Pacific	**-1.1%**	**-0.2%**	**7.6%**
Australia	2.9%	-0.8%	10.9%
Hong Kong	4.0%	12.0%	16.0%
Japan	-9.6%	-3.4%	-5.4%
Singapore	0.0%	0.0%	5.5%
Emerging Markets	**2.9%**	**6.5%**	**22.2%**

USD net returns calculated by CBRE Clarion via Factset Research Systems, Inc. Portfolio Analytics module.

The U.K. was the best performing region due to strong returns from utilities, which traded almost 10% higher. Utilities in Continental Europe did not deliver the same level of returns but did outperform global infrastructure benefiting the region's performance. Asia-Pacific, the sole negative region, suffered from weak returns – specifically Japanese electric and gas utilities that experienced double digit losses.

MARKET OUTLOOK

We continue to see value in infrastructure stocks globally, as evidenced by the persistent discount to global equities and to the private market, combined with high visibility for growth driven by secular trends of decarbonization and digital transformation, plus the near-term recovery in economic activity that will benefit transportation infrastructure.

Sentiment towards infrastructure remains positive and interest levels from the private market remains elevated. We continue to note that capital flows in private infrastructure market are likely to have a positive impact on listed valuations.

The reason we draw this conclusion is that large institutional buyers and increasingly scaled private funds seeking core infrastructure across the globe are finding it difficult to deploy capital into high-barrier-to-entry assets which, by their nature, are scarce. This scarcity value combined with elevated demand and still attractively priced capital is supportive of elevated valuations in the private market that only reinforces the 20%+ discount at which the listed infrastructure space is trading versus private asset valuations. This valuation gap becomes most evident when private buyers seek execution against listed assets, and the second quarter has demonstrated more of this activity which we believe is poised to continue.

Tilt Renewables in New Zealand and QTS Data Centers in the U.S. are two more case studies that best exemplify the trend, as both are being taken private by leading global infrastructure investors at meaningful premiums to where they were trading. In the case of Tilt Renewables this premium reached 100% versus its unaffected price while QTS is being bought at a 21% premium to where it was trading the day prior to the announcement.

Understanding the private markets and therefore the valuation impacts of such transaction activity can help us better understand valuations in the listed space and identify mispriced opportunities where we believe there is outsized return potential. Integrating private infrastructure information is core to our process at CBRE Clarion. We believe this provides us with a differentiated approach to investing and supports our ability to consistently add value.

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The FTSE Global Core Infrastructure 50/50 Index provides exposure to infrastructure as defined by the Industry Classification Benchmark (ICB) and adjusts the exposure to certain infrastructure sub-sectors. Company weights are limited to 5%. The UBS 50/50 Index is an unmanaged market-weighted index which consists of infrastructure and utility companies from developed markets whose floats are larger than US $500 million. *PA07xx2021*