

**CBRE CLARION SECURITIES**

# Listed Infrastructure Investment Advantage Active Management

We believe active management is the optimal way to gain exposure to the asset class. A skilled active manager with a globally diverse and inclusive approach to investing in listed infrastructure provides a greater opportunity to capture the defensive, income-producing and inflation-protection potential of the asset class.

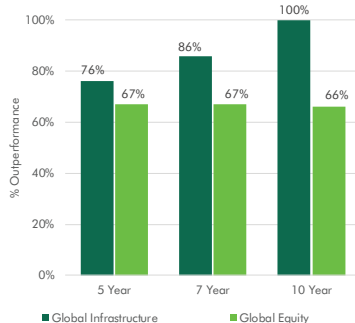
The factors supporting an active investment approach for listed infrastructure include:

- Active managers have consistently outperformed over the long term.
- The broad and diverse investment universe has historically generated a wide dispersion of returns across sectors and individual stocks.
- A limited availability of information at the asset level gives well-resourced active managers with local market knowledge an information advantage.

## ACTIVE MANAGERS ARE CONSISTENT OUTPERFORMERS

While the passive investing argument has no shortage of academic support for many traditional asset classes, the evidence in listed infrastructure shows passive to be an inferior option. The most compelling reason to consider in this debate is that actively managed global infrastructure funds have consistently outperformed over the long term. By comparing the indexes tracked by the larger ETFs in the listed infrastructure and global equity categories, the S&P Global Infrastructure Index and the MSCI ACWI Index, respectively, we see that active infrastructure managers have demonstrated their skill. While active managers of global equities have outperformed, active infrastructure managers have also done so and appear to have the upper hand.

### Outperformance of Active Management Listed Infrastructure versus Global Equity



*Over 75% of active infrastructure managers have outperformed over the 5-, 7- and 10-year periods.*

Source: E-Vestment separate account gross returns and CBRE Clarion, as of 12/31/2016. Indices used for the performance comparison are the S&P Global Infrastructure Index for Global Infrastructure and MSCI ACWI Index for Global Equities, both of which are tracked by the larger ETF's in their respective categories. Not all active listed infrastructure managers track the S&P Global Infrastructure Index.

## A WIDE DISPERSION OF RETURNS CREATES OPPORTUNITIES FOR ACTIVE MANAGEMENT

The global universe of listed infrastructure includes a broad set of industry sectors and companies that have common investment benefits driven by their steady cash flows. However, the range of total return outcomes across sectors is influenced by the prioritization of investment activity, the level of economic sensitivity and market regulation differences.

### Investment Opportunities

The need for asset investment across sectors is driven by the ongoing need for safety and reliability, which alters current and future cash flows and varies by geography, asset type and age. For example, current political and regulatory trends in most developed markets are driving increased investment in renewable energy and related transmission assets, benefiting companies with opportunities to invest in those areas. Absent investment activity, infrastructure assets typically grow with inflation.

### Economic Conditions

Although infrastructure assets are typically less sensitive to the economic cycle due to the essential functions they provide, the extent of their economic sensitivity varies widely among sectors. Water distribution infrastructure is an essential service and has the least amount of demand sensitivity. Airports are also critical infrastructure that face limited competition, but their use will be more sensitive to GDP, business activity, consumer purchases and tourism, among other factors.

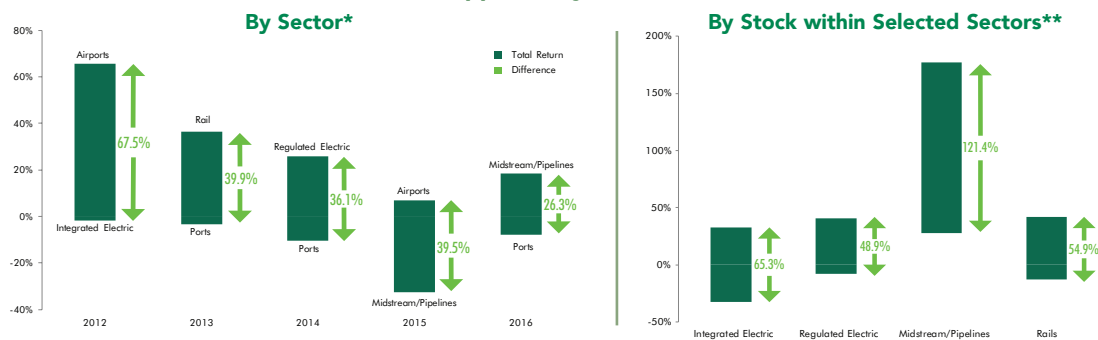
### Regulatory Regimes and Trends

The variation among sectors is also influenced by the level of regulation and how it impacts the operation and cash-flow potential of the asset. Common types of regulation span financial, safety and environmental concerns. Even within the same sector, such as regulated electric utilities, regulation varies by geography, even varying by state within the U.S. Regulation influences the returns on existing assets, as well as the returns and potential for new investment opportunities, which impact cash flows.

Within sectors, there is also significant dispersion of returns, as each security owns a unique set of assets that are valued based on their specific market exposure, tenant/counterparty risk, regulatory framework, competitive forces, stability of underlying cash flows and investment-growth potential. In addition, each company has its own management team making capital structure and capital allocation decisions that impact the future dividend and cash-flow potential of the company.

An active manager's ability to outperform requires both sector-specific expertise, as well as a view of the differences in the drivers of total return between sectors. Active managers also understand the asset-level exposure of each company, which can have a significant impact on their return-and-risk profile, even within the same sector.

## Wide Dispersion of Returns Across Sectors and Companies Provides Opportunity to Add Value



\*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 12/31/2016 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. An index is unmanaged and not available for direct investment.

\*\*Source: Factset, FTSE Global Core Infrastructure 50/50 Index as of 12/31/2016 in local currency. Performance is based on calendar year 2016 return. An index is unmanaged and not available for direct investment.

### ACTIVE MANAGERS' INFORMATION ADVANTAGE

Active managers have greater potential to gain an information advantage in the listed infrastructure asset class. We believe a primary reason for the ability of active managers to outperform is the asymmetry of information found in the listed infrastructure market and the focus of investors on equity factors rather than infrastructure factors.

Private-market data is not widely available, providing managers with dedicated resources and on-the-ground knowledge with an advantage. There is limited sell-side coverage of listed infrastructure as an asset class, with most analysts covering "industry sectors" like Industrial stocks (includes railroad transportation companies) or telecommunications stocks (includes tower communication companies). The comparison therefore of infrastructure assets is not based on their qualities as infrastructure, but on their qualities relative to other equities.

*"A PRIMARY REASON FOR THE ABILITY OF ACTIVE MANAGERS TO OUTPERFORM IS THE ASYMMETRY OF INFORMATION FOUND IN THE LISTED INFRASTRUCTURE MARKET"*

### PASSIVE INVESTORS BEWARE

Investors taking a passive approach should be aware of the unintended active decision of selecting an index. The active decision for passive investors is an outgrowth of a lack of uniformity across indexes and the exchange-traded funds that track them. In our view, each index captures only a portion of the investment universe and is not representative of the whole.

Given the lack of uniformity, the challenge for a passive investor with a long-term view is to understand the performance impact of the industry concentration, sector exclusion or company exclusion for each index over a market cycle.

The potential large difference between the top-performing index and the bottom-performing index represents a significant challenge in their passive decision process, which may more than offset the lower cost benefit.

### NOT ALL ACTIVE MANAGERS ARE CREATED EQUAL

Infrastructure is a highly specialized asset class. Each sector has its own unique set of investment characteristics and risks. Active managers can efficiently reallocate the portfolio to potentially capture the opportunity associated with catalysts, such as increased capital investment, or avoid the risks associated with changes in market regulation or interest rates.

A successful investment approach to listed infrastructure starts with the analysis of a broad and inclusive investment universe, unconstrained by index bias. We believe CBRE Clarion's inclusive approach, combined with a high-conviction and risk-conscious investment process, enhances our ability to generate outperformance while capturing the stability, income and growth potential of the asset class.

### ABOUT CBRE CLARION SECURITIES

CBRE Clarion Securities is an industry-leading global investment management firm specializing in the management of listed real asset securities including real estate, infrastructure and master limited partnerships (MLPs). CBRE Clarion manages client portfolios with a focus on generating attractive risk-adjusted returns through total-return, income-focused and absolute return-oriented strategies. Headquartered near Philadelphia, Pennsylvania, the firm has over 90 employees located in offices in the United States, United Kingdom, Hong Kong, Japan and Australia.

The global transfer of ideas, in-depth local market research and market intelligence distinguishes CBRE Clarion. Our team of over 40 dedicated listed real asset investment professionals draws upon the research and resources of CBRE's global organization. Our global perspective and local infrastructure and real estate market insight combined with our disciplined investment approach enhance our teams' ability to underwrite risks and capitalize on potential opportunities.

CBRE Clarion Securities is the listed equity management arm of CBRE Global Investors, an industry-leading global real asset investment firm sponsoring investment programs across real estate, infrastructure and private equity.

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