COHEN & STEERS

Global Listed Infrastructure

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 4.08% in the first quarter.

Investment Review

Listed infrastructure rallied in the first quarter but modestly trailed the broad global equity market. Investor risk appetite was mixed over the quarter. Vaccine rollout challenges, new virus strains and valuation concerns triggered risk aversion in January. After a solid start in February, infrastructure retreated due to rising U.S. bond yields and inflation concerns. The market then moved sharply higher in March, given expectations for a sustainable economic recovery. For the quarter, there was a wide dispersion in performance within the listed infrastructure space.

Travel-related sectors underperformed, validating our underweight in these areas. Optimism around effective vaccines was overshadowed by rollout challenges, new virus strains and new or extended travel restrictions, especially in Europe. Overall, this weighted on the airport sector (1.1% total return in the index[1]), as the timeframe for widespread travel activity was pushed back. Toll roads (0.3%) also underperformed for the quarter. We continue to believe the travel recovery will be uneven and prolonged in some regions.

The more economically sensitive infrastructure sectors rallied sharply amid improving conditions. Positive economic data supported marine ports (20.1%), the quarter's top-performing sector. Midstream (17.0%) rallied for a third consecutive month in March, driven by strengthening energy commodity prices and expectations of rising throughput volumes for energy infrastructure assets. Railways (8.2%) also moved sharply higher amid expectations for improving travel and freight volume metrics. We continue to favor freight rails over passenger rails.

Index Performance by Sector

Sector	Q1 2021
Marine Ports	20.11 %
Midstream	17.02 %
Diversified	12.76 %
Railways	8.25 %
Gas Distribution	5.81 %
Communications	4.83 %
Electric	3.16 %
Airports	1.10 %
Toll Roads	0.31 %
Water	-2.15 %

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.

Utilities generated mixed results amid rising interest rates. Several defensive infrastructure sectors, including water companies (–2.1%) and electric utilities (3.2%), underperformed as investors generally favored economic recovery companies, especially during the first two months of the year. However, gas distribution (5.8%) and communications companies (4.8%) performed well, driven by a strong rally in March. These sectors decoupled from rising rates as the 10-year U.S. Treasury yield moved from 0.93% to 1.74% over the quarter.

Renewable-related infrastructure companies generally lagged over the quarter. Despite expectations for significant infrastructure spending and green policies under the Biden administration (and proposals unveiled in late March), renewables companies were generally laggards over the quarter. While we believe this investment thesis remains intact, the Biden proposals were anticipated and already largely priced into renewables' stock prices following the 2020 election.

Investment Outlook

We maintain a balanced portfolio, reflecting optimism around the economic and activity implications of vaccine distribution globally. We anticipate a return to more normal economic activity in the second half of the year. However, the path will be uneven given new virus strains and travel restrictions. We remain overweight telecom infrastructure in our defensive bucket, matched with an underweight in utilities. Within the latter, we favor renewable-focused utilities and utilities that we feel the market is mispricing. We prefer North American freight railways among transport-related infrastructure based on our expectations for continued strong freight volumes and earnings momentum. We remain cautious on mass transportation–oriented infrastructure, such as airports and toll roads, ahead of what could be a lag in travel resumption. We see relatively attractive valuations in the midstream space and anticipate a modest increase in energy production volumes.

Listed infrastructure appears attractively priced relative to broader equities. Valuations for listed infrastructure remain near a decade-low discount relative to the broad global equity market, in sharp contrast to historically premium valuations. This mispricing occurs at a time, we believe, when

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infrastructure is strongly positioned to benefit from a vaccine-driven economic recovery. Longer term, secular trends such as the digital transformation of economies and the transition to clean energy will potentially be significant drivers of infrastructure returns.

Rising rates and inflation may impact certain sectors in the near term, but infrastructure returns have historically shown attractive levels of sensitivity to unexpected inflation. As the global economy continues to improve, we are keeping a close eye on inflation and interest rates, which will be important drivers of asset allocation decisions in 2021. Performance dispersion among subsectors can be significant in periods of economic recovery/rising bond yields. However, infrastructure businesses can generally pass rising costs along to consumers and, as a result, they have tended to perform well during periods of unexpected inflation.

We believe the Biden administration's proposed infrastructure package and tax changes are a clear positive for listed infrastructure. The sweeping $2 trillion infrastructure and jobs package ($621 billion earmarked for infrastructure) will undoubtedly be negotiated in Congress. That said, the proposal as it stands today would be positive for listed infrastructure, as there are both direct beneficiaries (renewables and utilities) and indirect beneficiaries (transportation infrastructure [rails, ports, toll roads and airports], telecom and midstream energy) in our investment universe. We will closely follow the negotiations and monitor the offsets in terms of tax increases.

(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 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.

An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations as volatility and other characteristics may differ from a particular investment.

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