CBRE CLARION SECURITIES

GLOBAL LISTED INFRASTRUCTURE: INTRODUCTION TO THE ASSET CLASS

SEPTEMBER 2014

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GLOBAL LISTED INFRASTRUCTURE
EXECUTIVE SUMMARY

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Investment in infrastructure is among the world's leading growth drivers and is a strategic priority for countries worldwide. Listed infrastructure companies are playing a dominant role in the accelerating growth of the infrastructure asset class globally.

More than $57[1] trillion is needed to fund global infrastructure projects in the coming years, making infrastructure among the world's largest growth industries.

The infrastructure sector exhibits attractive investment characteristics including:

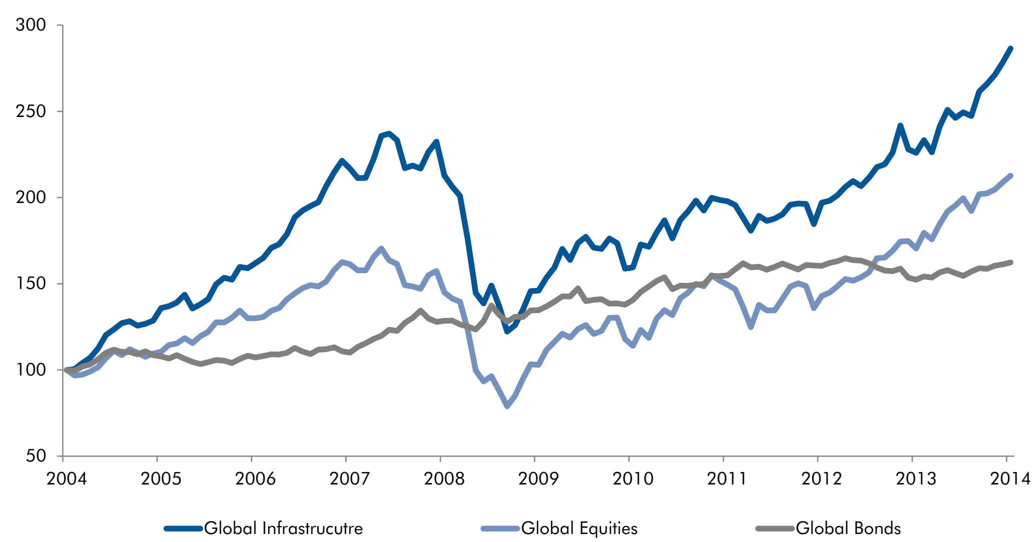
1. Historically steady and predictable cash flow streams,
2. Monopolistic investment positions driven by high barriers to entry,
3. Demand that is generally uncorrelated to macro-economic conditions, and
4. Inflation protection.

Allocating capital to the infrastructure sector is an ideal way to match long-duration assets with long-term benefit liabilities, while remaining well positioned to achieve strong risk-adjusted returns stemming from predictable income streams and capital appreciation potential.

Listed infrastructure may provide investors with much greater liquidity features relative to private market investment opportunities and allows for better diversification globally, both by sub-region and sub-sector.

Global listed infrastructure has outperformed global equities and global bonds over the past 10 years, while at the same time exhibiting lower levels of volatility than other equity sub-sectors. The UBS Global Infrastructure & Utilities 50-50 Index posted a ten-year +11.1% annualized total return versus the MSCI World Equity Index which delivered a +7.8% total return and global bonds which returned +5.0%.

Exhibit 1: Historical Returns versus Global Equities and Bonds (cumulative, USD)



Source: Bloomberg, UBS Global Infrastructure & Utilities 50-50 Index, J.P. Morgan Global Bond, MSCI World Equity Index

Global listed infrastructure offers attractive dividend yields with capital growth potential; adds portfolio diversification benefits with lower volatility than other asset classes; and provides an increased level of market transparency and liquidity versus private-market investment alternatives.

[1] Dobbs, R., Pohl, H., et al. (January 2013), "Infrastructure Productivity: How to Save $1 Trillion a Year", McKinsey Global Institute, © McKinsey & Company. http://www.mckinsey.com/insights/engineering_construction/infrastructure_productivity

INTRODUCTION

Global listed infrastructure has delivered attractive returns over the long-term, outperforming global equities and bonds, while exhibiting lower levels of volatility. Investment in infrastructure is a priority for countries globally and in many cases is seen as critical to sustaining and enhancing existing living standards. Today, listed companies are playing an increasingly important role in meeting this strategic priority. Global listed infrastructure may offer investors the potential to achieve competitive returns, with diversification benefits in a liquid, transparent structure.

An investment in global listed infrastructure should be considered in any mixed-asset portfolio to enable investors to benefit from an asset class that:

- is a strategic investment priority for countries worldwide;
- is a growing part of the investment universe;
- provides attractive dividend yields and capital appreciation characteristics;
- shields investors from the competitive threats typical of other industries given high barriers to entry;
- has steady, predictable cash flow streams that are generally linked to inflation;
- offers an increased level of diversification, transparency and liquidity versus private infrastructure investment.

Infrastructure is among the world's largest growing asset classes.

Following the Global Financial Crisis (GFC) of 2008-2009 many nations around the world experienced economic growth below long-term averages while operating under fiscal austerity measures put in place to help rebalance once bloated government budgets. While such fiscal measures were necessary to help countries stabilize their economies in a low-growth, post-GFC world, they have also had the effect of reducing spending on infrastructure and raising questions about how the infrastructure needs of the next generation will be met. As a result, governments are increasingly willing to turn to the private sector as a funding source to help meet their infrastructure needs whilst ensuring their ability to grow into the future. A McKinsey Global Institute report estimated global infrastructure requirements through 2030 to be in the order of $57 trillion[2], making infrastructure among the world's primary growth industries and highlighting the significant opportunity lying ahead for companies in the infrastructure space.

As a result of this anticipated demand, institutions are partnering with the public sector to build and operate a broad range of infrastructure assets around the world and are playing a larger role in the development and financing of essential projects needed to sustain growth and preserve existing assets across global economies.

In this paper, we build the case in support of investing in global listed infrastructure as an attractive vehicle to gain exposure to the asset class and potentially capitalize on the articulated opportunity.

[2]Dobbs, R., Pohl, H., et al. (January 2013), "Infrastructure Productivity: How to Save $1 Trillion a Year", McKinsey Global Institute, © McKinsey & Company. http://www.mckinsey.com/insights/engineering_construction/infrastructure_productivity

WHAT IS INFRASTRUCTURE?

"Infrastructure" represents the structures and systems which are the real assets and organizational facilities that provide society with the essential resources to function. These long-standing assets are generally costly and difficult to replace and incorporate a myriad of product types across geographic locations. Infrastructure includes transportation assets (e.g. – ports, airports, toll roads and railroads), electric distribution grids (e.g. - utilities), pipeline systems required to transport oil, gas and water, and systems to support communication networks such as wireless towers and satellites. Perhaps the most distinguishable attribute of infrastructure assets is their monopolistic position, which arises from high barriers to entry, generally dictated by the high levels of required investment and government mandated regulation which ensures minimal competition to existing assets.

Exhibit 2: Types of Infrastructure

Communications

- Wireless Towers
- Satellites
- Fixed Line Networks

Oil and Gas Transport & Storage

- Long-haul Pipelines
- Gathering & Processing
- Liquids Terminals
- LNG Facilities

Utilities

- Electric Transmission Lines
- Electric Distribution
- Gas Distribution Pipelines
- Water Distribution Systems
- Renewables

Transportation

- Airports
- Toll Roads
- Railroads
- Ports

INFRASTRUCTURE CHARACTERISTICS

Exhibit 3: Common Characteristics of Infrastructure Assets

Attribute	Common Characteristic	Industry Example
Monopolistic	• Large scale - Capital intensive • High barriers to entry - High development costs, regulation and geography serve as barriers to entry	• Utilities - Electric, Gas, Water • Toll roads, Airports, Railroads • Satellites
Regulated / Government Oversight	• Societal needs warrants governmental oversight	• Pipelines, Electric Transmission • Toll roads, Airports, Railroads • Utilities - Electric, Gas, Water
Inelastic Demand	• Provide essential community services • Less sensitive to business cycle	• Utilities - Electric, Gas, Water • Towers
Predictable Long-term Returns	• Assets are long-lived • Steady user demand • Reliable cash flows	• Toll roads • Utilities - Electric, Gas, Water • Pipelines
Inflation-linked	• Regulated price mechanisms that consider rate of inflation • Concessions permitting rent escalations linked to inflation	• Toll roads, Airports, Railroads • Utilities - Electric, Gas, Water • Towers

Source: CBRE Clarion Securities

WHY INVEST IN INFRASTRUCTURE?

Investing in infrastructure is an ideal way for institutions to match their long-term liabilities with long-duration assets, while achieving strong risk-adjusted returns stemming from predictable income streams and capital appreciation. In a report published by the American Society of Civil Engineers, the authors assert that the physical condition of aging infrastructure in the U.S. is weak and in the need of meaningful capital re-investment to sustain[3]. Hence, the ability to invest in irreplaceable regulated assets currently owned by the public sector is an opportunity for investors to potentially lock in stable, long-term returns in an asset class shielded by the high barriers in place to prevent unwarranted competition. In our view, infrastructure is positioned to perform well throughout an economic cycle as demand drivers of infrastructure are generally insensitive to changes in GDP and other economic factors.

LISTED INFRASTRUCTURE PROVIDES LIQUIDITY IN AN OTHERWISE ILLIQUID ASSET CLASS

Investors can gain exposure to infrastructure in various ways. Direct investment offers pure exposure with operating control; however, the large capital outlay typically needed per project essentially eliminates the diversification benefit options and tends to lead to higher leverage. Private equity and other indirect investment vehicles provide for better diversification and allow for relatively smaller capital outlays, but liquidity features are low and transparency of asset level returns and operating risks are lacking. Furthermore, historical data for private investments and funds is limited, making the analysis and comparison of historical returns and risks challenging. Investing via listed securities offers an attractive alternative with daily liquidity, transparency of reporting, significant diversification, and a historical data set to analyze returns, risks and correlations. We believe the benefits of investing in a listed infrastructure vehicle provides a better long-term risk-reward profile for infrastructure investors versus other methods of investing.

Exhibit 4: Primary Methods of Gaining Exposure to Infrastructure

Method of Investing	Advantages	Disadvantages
Direct	• Control • Maximum transparency • Discretion over capital structure	• Large capital outlay • Little diversification • Regulatory risk • Low liquidity • Specialist operating skills required
Private Funds / Partnerships	• Better diversification • Smaller capital requirements • No operating skills required	• Lack of transparency / disclosure • Some regulatory risk • Low liquidity • Slower investment execution • Less current income, more development
Debt Financing (Bonds)	• Returns largely pre-determined • Potential asset recourse on capital • Lower volatility of returns • No operating skills required	• Large capital outlay • Little diversification • Some regulatory risk • Low liquidity
Listed Infrastructure Vehicles	• Strong diversification potential • Highly liquid • No operating skills required • Minimum investment threshold • Daily pricing • High levels of disclosure	• Higher volatility of returns • Limited see-through to individual projects • Some regulatory risk

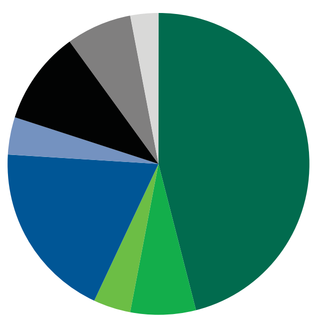
Source: CBRE Clarion Securities

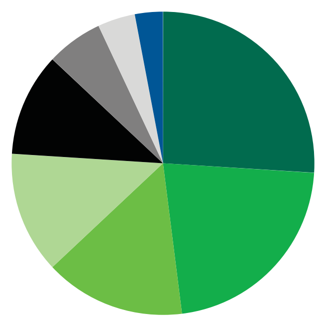
[3]2009 Report card for America's Infrastructure, American Society of Civil Engineers, www.infrastructurereportcard.org.

THE GLOBAL LISTED INFRASTRUCTURE UNIVERSE

The global listed infrastructure universe is approximately US$3.4 trillion in free-float equity market capitalization and encompasses over 413 companies. We have defined the universe to include those companies around the globe with a minimum equity market capitalization of US$250 million which generate a minimum of 50% of operating cash flows from the ownership or operation of infrastructure assets. Developed markets account for 89% of the listed universe, with the Americas, Europe, and Asia Pacific comprising 57%, 23%, and 20%, respectively.

Exhibit 5: Breakdown of the Listed Infrastructure Investment Universe





Source: Bloomberg, CBRE Clarion Securities

The listed infrastructure universe includes companies that own and derive income from a tangible asset base and meet the infrastructure characteristics as defined above.

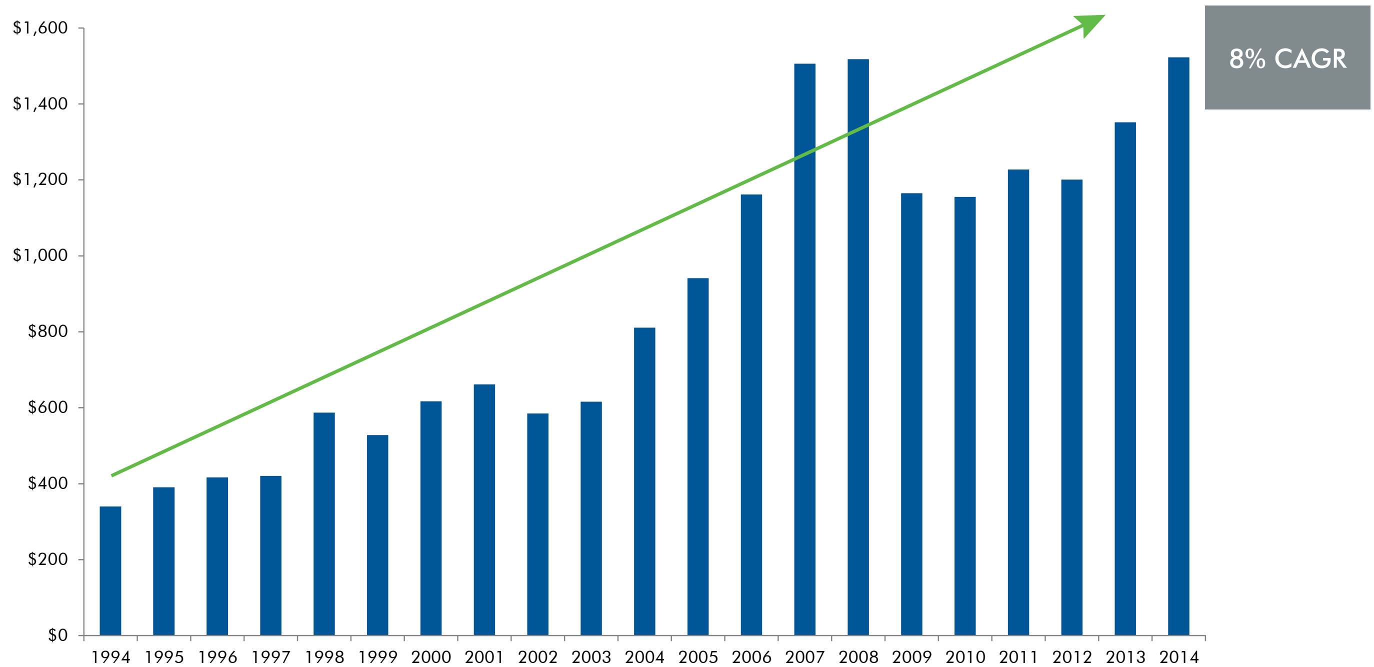
Exhibit 6: Focus on Companies that Own Real Assets

	Included In Our Universe	Excluded from Our Universe
Description	• Companies that own, develop, lease, concession or manage infrastructure assets • Assets are long-lived and require high capital investment	• Companies that service infrastructure assets • Companies whose sole business is to profit from the sale of commodities
Cash flow & Risk Profile	• Contractual and stable with long duration • High current yield • Lower volatility	• Limited visibility • Low yields and margins • Higher volatility
Demand profile	• Provide essential community services • Less sensitive to business cycle	• Cyclical and linked to business cycle
Sectors	✓ Oil and gas pipelines and storage facilities ✓ Electricity transmission and distribution lines ✓ Water pipelines ✓ Toll roads ✓ Airports ✓ Sea ports ✓ Railroads ✓ Communication towers ✓ Satellites	✗ Mining companies ✗ Shipping companies ✗ Pure merchant power generators ✗ Energy service companies ✗ Engineering companies ✗ Pure construction companies ✗ Cement manufacturers ✗ Machinery manufacturers

Source: CBRE Clarion Securities

The listed infrastructure universe market capitalization has grown significantly, expanding at a compound annual growth rate (CAGR) of 8.0% since inception of the UBS Global Infrastructure & Utilities 50-50 Index in 1994. We expect the index to continue its rapid growth phase in the coming years, reflecting the growing need to fund infrastructure assets worldwide.

Exhibit 7: Growth in Market Capitalization of Global Listed Infrastructure Index



Source: UBS Global Infrastructure & Utilities 50-50 Index

HISTORICAL PERFORMANCE & RISK ANALYSIS

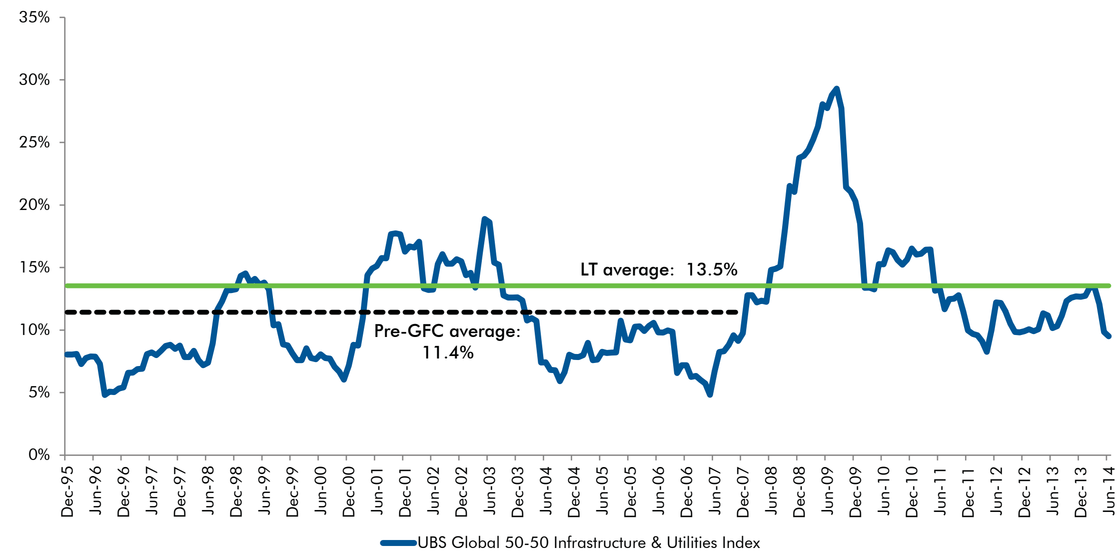
Global listed infrastructure has outperformed the broader global equities and bond markets over the past decade. Importantly, global infrastructure has also led to outsized risk-adjusted returns versus both of these asset classes. Relative to global equities, global infrastructure has delivered both superior returns while also demonstrating less volatility. Relative to global bonds, global infrastructure has delivered more than 2 times the annualized total return, more than compensating for higher volatility. While volatility levels have been elevated from historical trends, the higher level reflects the impact of the GFC in 2008-2009. Since the GFC, volatility levels have trended down toward the pre-GFC average of just 11.4%.

Exhibit 8: Historical 10-year Risk-adjusted Returns - 2004-2014 (USD)

Indices by Asset Class	Total Return	Volatility	Risk-adjusted Return*
Global Bonds	5.0%	6.5%	0.53
Global Equities	7.8%	16.0%	0.39
Global Infrastructure	11.1%	14.9%	0.64

*Risk-adjusted return measured by Sharpe ratio, which calculates performance after considering volatility. Higher output reflects a better risk-adjusted return.
Source: Bloomberg, FactSet, JP Morgan Global Bond Index, MSCI World Equity Index, UBS Global Infrastructure & Utilities 50-50 Index

Exhibit 9: Rolling 12-month Volatility & Historical Averages Since Inception



Volatility has reduced significantly following the elevated levels associated with the GFC.

Source: UBS Global Infrastructure & Utilities 50-50 Index

When compared to the sector constituents of the MSCI World Equity Index over the last ten years, global listed infrastructure has outperformed all but one sector while maintaining low levels of volatility, more similar to non-cyclical, defensive sectors like consumer staples and health care. On both an absolute basis and on a risk-adjusted basis, global listed infrastructure has been a top-tier performer.

Exhibit 10: Global Equity Sub-sectors Historical Risk-adjusted Returns, 2004-2014 (annualized, USD)

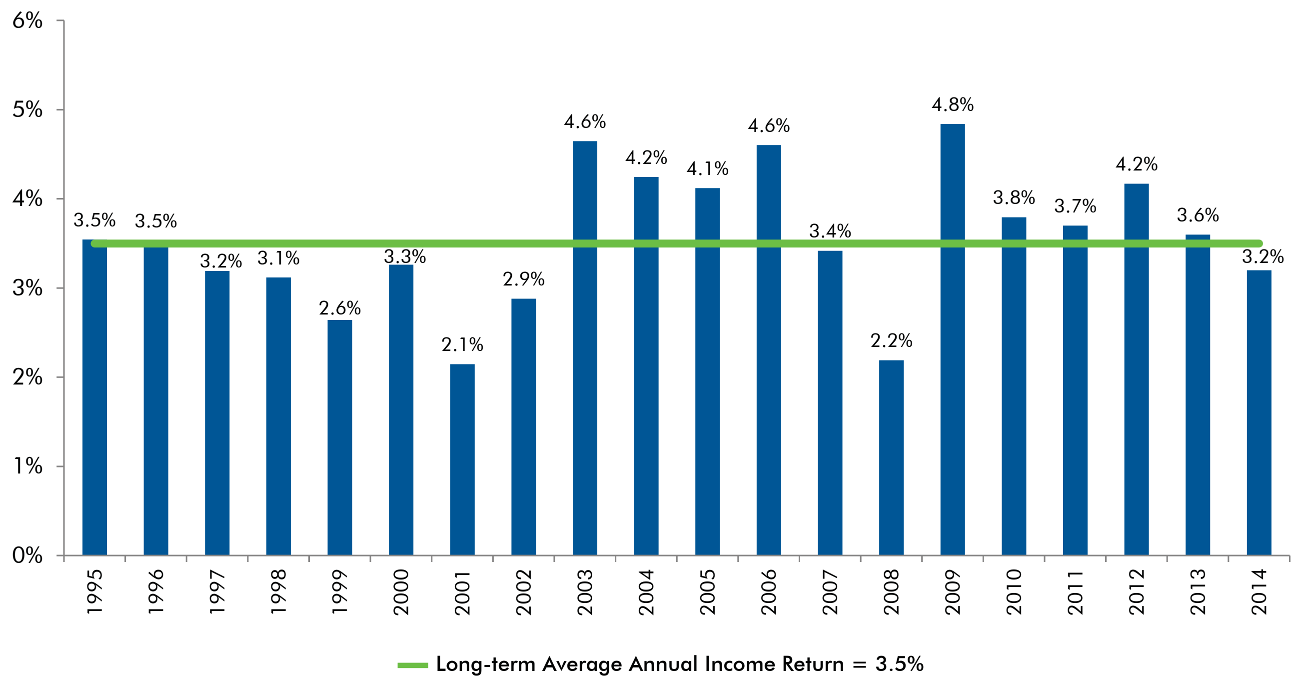
Indices by Sub-sector	Total Return	Rank	Volatility	Rank	Risk-adjusted Return*	Rank
Consumer Staples	10.8%	3	11.6%	1	0.80	1
Healthcare	9.8%	4	12.4%	2	0.66	2
Infrastructure**	11.1%	2	14.9%	5	0.64	3
Utilities	8.9%	6	13.4%	3	0.55	4
Telecommunication Services	8.6%	9	14.5%	4	0.49	5
Energy	11.3%	1	21.2%	9	0.46	6
Consumer Discretionary	8.7%	8	17.4%	6	0.41	7
Industrials	8.8%	7	18.5%	8	0.39	8
Materials	9.3%	5	23.3%	11	0.33	9
Information Technology	7.1%	10	18.1%	7	0.31	10
Financials	3.0%	11	22.5%	10	0.07	11

*Risk-adjusted return measured by Sharpe ratio, which calculates performance after considering volatility. Higher output reflects a better risk-adjusted return.
** As measured by UBS Global Infrastructure & Utilities 50-50 Index
Source: Bloomberg, MSCI World Equity Index, UBS Global Infrastructure & Utilities 50-50 Index

ATTRACTIVE AND GROWING DIVIDEND YIELDS

Attractive in-place income and the potential to achieve long-term capital appreciation are among the core attributes of typical infrastructure assets. Global listed infrastructure companies have had a strong track record of producing stable dividend yields for investors on a consistent annual basis, and since inception of the global listed infrastructure index, the income component of the total return has averaged 3.5% annually. We expect dividends to continue to grow over time as companies expand their asset bases through investment and achieve steady organic growth from contractually driven, inflation-linked revenue growth. Additionally, many companies are well positioned to capitalize on accretive external growth opportunities which may arise over time and drive further increases to distributions.

Exhibit 11: Annual Global Listed Infrastructure Income Returns Since Index Inception



Source: UBS Global Infrastructure & Utilities 50-50 Index. The inception date of the Global Infrastructure & Utilities 50-50 Index is 12/30/1994.

DIVERSIFICATION BENEFITS

Since inception of the UBS Global Infrastructure & Utilities 50-50 Index in 1994, global listed infrastructure has exhibited low correlation with bonds (0.34) although higher levels versus equities (0.76). However, we believe the high correlation among global equity sub-sectors, including infrastructure, over the past few years has been unprecedented and driven by the GFC and subsequent government-stimulated recovery, both of which caused sharp directional movements for all equities to both the downside and upside. As the ongoing recovery continues we see correlations among equity sub-sectors trending back towards longer term averages. From inception of the UBS Global Infrastructure & Utilities 50-50 Index through the onset of the GFC in 2008, correlations were significantly lower at 0.59 and we expect that over time correlations will revert back to pre-GFC levels.

GLOBAL INFRASTRUCTURE OVERVIEW & OUTLOOK

Large-scale privatization of infrastructure has been increasing in many global markets. In Australia, infrastructure investing by non-government institutions was pioneered over two decades ago, and is now considered a core investment class. In North America, utilities, midstream oil & gas and communications infrastructure have largely been placed in the hands of non-government, publically-traded companies. In Europe, parts of Asia and Latin America privatizations of airports, roads, and rail systems have become part of mainstream investing. Still, all countries, developed and emerging, are spending billions each year to modernize, expand and upgrade their existing infrastructure. The capital intensive nature of the asset class is an obvious link to publically-traded global securities markets given their depth and size. Given the unique access to these capital pools, listed infrastructure is an attractive investment opportunity driven by regional factors that share global commonality.

North America

North America is currently in a heightened period of infrastructure investment primarily as a result of the shale revolution and requisite build-out needed to support new drilling activity. The result has been a surge in capital investment plans of energy infrastructure companies, including Master Limited Partnerships (MLPs). Such investment has amounted to nearly $18 billion per year over the past 5 years as companies continue to support the evolving energy complex in North America by building the pipelines and facilities needed to transport, store and process commodities captured at the wellhead. We believe this growth will continue to evolve and provide ample opportunities for companies in our investment universe. According to a December 2013 report by IHF commissioned by the American Petroleum Institute (API), total midstream infrastructure needs in North America amount to $890 billion through 2025, or approximately $74.2 billion per year over the 2014-2025 time period. While we believe this investment opportunity remains relatively early in its life-cycle, other pockets of North American infrastructure show encouraging signs of growth as well.

Utilities in the region have entered a period of increased investment that has been stimulated by numerous factors including environmental regulation, the need to improve reliability and as a result of the abundance of domestically sourced natural gas. As a result, publicly traded utilities now have multiple avenues of growth which are largely supported by regulators and are driving reinvestment into existing assets, new renewable developments and spending on projects such as liquefied natural gas (LNG) facilities. The Edison Electric Institute (EEI) estimates U.S. utilities will spend nearly $93 billion in 2014 on such capital expenditures, up 25% from levels seen in 2010 and more than double the amount spent a decade ago.

The Communications space is also enjoying robust growth. Owners of wireless towers continue to experience robust organic growth as their tenants (i.e. - wireless carriers) are forced to spend in an increasingly competitive environment that must cope with surging data demand. Global networking company Cisco expects wireless demand growth of 50% per annum in North America thru 2018 as a result of increasingly data intensive smart devices continuing to represent a larger share of all connected devices. The result is a boon for owners of communications assets as higher utilization and increased pricing is highly accretive to the bottom line supporting double-digit earnings growth.

Transports infrastructure in North America remains a relatively untapped resource which we believe will ultimately become a significant source of future investment opportunity for public listed infrastructure companies. To-date, there has been limited privatization of transportation assets in North America with the exception of freight rail which is largely in the hands of listed U.S. and Canadian based companies. Heavy reliance on government spending in this arena remains commonplace although an aging transportation system coupled with reduced government budgets is beginning to incent public-private partnerships and other such activity. Highlighting how dire the situation has become, the U.S. Federal Highway Trust Fund, responsible for funding nearly $40 billion a year in infrastructure work on the nation's highways, nearly went bankrupt in the summer of 2014 if not saved by a short-term, 10 month extension through congressional intervention. Such measures are not practical in the long-run and highlight the need to bring in private sources of capital to fill the hole. Some states are already electing to pursue public-private partnerships. For example, the Port Authority of New York and New Jersey is currently bidding out nearly 70% of an estimated $3.5 billion project to update LaGuardia airport in New York City. The bidding process is ongoing and is reportedly down to three privately formed consortiums.

In summary, we believe it is an exciting time in the North American infrastructure space as both current and future investment opportunities are robust which will help pave the way for growth in the sector for years to come.

New York's LaGuardia Airport is currently slated to undergo a significant $3.5 billion redevelopment which will include the construction of a new central terminal. The project is expected to take seven years to fully build out. The airport is run by the Port Authority of New York and New Jersey, a joint venture between the two states established in 1921, who will oversee selection of the winning bidders on a portion of the project. The Port Authority is bidding the development of the new central terminal which is estimated at 70% of the total project cost. The winning bidders will then be able to operate the terminal under a long term concession agreement much like the European model which is commonplace for listed airport operators. Recent headlines suggest bidders may also be looking to take on costs associated with outlying construction as well, implying an even larger opportunity. The bidding process is ongoing and is reportedly down to three privately formed consortiums.

Latin America

In Latin America, where there is a significant need for improved infrastructure, governments have become increasingly focused on infrastructure spending while showing a willingness to embrace the public-private partnership (PPP) model. The Brazilian government, having already committed to the significant spending needed to complete infrastructure investments related to the 2014 World Cup and 2016 Olympics, announced a series of measures aimed at further increasing spending on domestic infrastructure. The first plan announced in August 2012 contemplates a 25 year, R$133 billion stimulus package targeted at roads and railways in the country. At the time, nearly 60% of the spending was expected to be completed over the next 5 years and indeed the country has embarked down this path having already auctioned off 6 toll roads to private consortiums. The government also announced a R$54.2 billion investment plan targeting the sale of ports in the country which will also rely on private market participation.

In Mexico, the government continues to take proactive steps to encourage private infrastructure investment. The latest National Infrastructure Plan 2014-2018 outlines 743 projects estimated to cost US$590bn over that 5 year time period which will consist of both public and private capital. The plan promotes a broad slate of projects aimed at increasing the quality and competitiveness of the country's infrastructure. As has been the case with prior plans, reliance on the private sector enables a more rapid advancement of the government's infrastructure objectives while reducing the monetary burden in achieving them.

Mexico has also recently taken major strides in opening up the country's long government owned energy industry. Recent reforms have been pushed through as a result of extensive legislative overhaul which will now begin the process of enabling private enterprises to explore the country's natural resources. The introduction of fresh capital to the country is likely to provide tremendous opportunities for companies engaged in energy infrastructure as a wave of investment opportunity opens up to build pipelines, storage facilities and processing capacity to support new drilling activity as has been the trend with Mexico's neighbors to the north.

The ongoing efforts of Latin America countries to promote infrastructure through PPPs is an encouraging trend and will present opportunities for well established, publicly traded companies operating in those countries to take part in what is likely to remain an extended period of heightened infrastructure investment.

Europe

Amongst developed regions, Europe has been the slowest to recover following the Global Financial Crisis. Tepid growth and austerity measures introduced in the aftermath of the GFC have generally limited governments' ability to spend on infrastructure projects. However, it is encouraging that GDP growth across the region appears to be reaccelerating and perhaps it is no surprise that infrastructure spending plans are again on the minds of politicians. However, we believe a new regime is taking hold whereby the public sector, still haunted by recent economic events, is mindful that the best path forward must embrace a more balanced approach and include the help of the private sector where capital is plenty and demand is high.

In the United Kingdom's National Infrastructure Plan released in December 2013, the government noted more than £375 billion (US$640 billion) of spending through 2020 and beyond on infrastructure which spans transportation, communication and energy projects. The latest spending estimates represent a 20%+ increase from the prior year's estimate. The report makes great strides in outlining private market participation and further reinforces our view of the market opportunity for publically listed infrastructure stocks. Following its release, in April 2014, the U.K. government highlighted £36 billion in projects to begin in 2014 with more than 85% of this amount to involve some form of private market participation.

National Grid plc, the £55 billion U.K.-listed electric and gas utility that serves over 10 million customers in the U.K., is directly involved in the build-out of the country's energy infrastructure. The company is expected to invest nearly £39 billion in regulated networks, primarily electricity transmission under its approved regulatory framework stretching through 2021.[4]

France is currently exploring plans to reinvest in its highway system by providing incentives to concession companies already overseeing assets, many of which are already publicly traded entities, to spend an additional €3.6 billion in improvements. In Spain, the market is awaiting the anticipated initial public offering (IPO) of a government owned airport entity, Aena, which could reportedly raise more than €3.25 billion. From the government's perspective, such a deal will allow them to retain an interest in its airports while raising capital in the near term and shifting the pressures of future funding needs to the private sector. From the private sector perspective, there will be an opportunity to participate in any future growth that may be associated with such assets while also providing further diversification potential. Said another way, such deals appear to be a win-win opportunity for the public and private sectors.

The outlook for growth of the infrastructure sector in Europe is positive. A resumption of economic activity in the region is beginning to stimulate more infrastructure spending in the region and evidence suggests this spending will increasingly rely on the private sector.

[4] National Grid plc May 2014 National Grid Today.

Asia Pacific

The developed Asia-Pacific economies like Australia, New Zealand and Japan have a strong history of privatizing and listing infrastructure assets. Some of the more recognizable assets include Japan's bullet-train network and the airports of Sydney and Auckland which have been privatized and listed in the past 25 years. We expect these countries to continue privatizing government-owned infrastructure in the future as a way to reduce government debt and improve the efficiency of the assets.

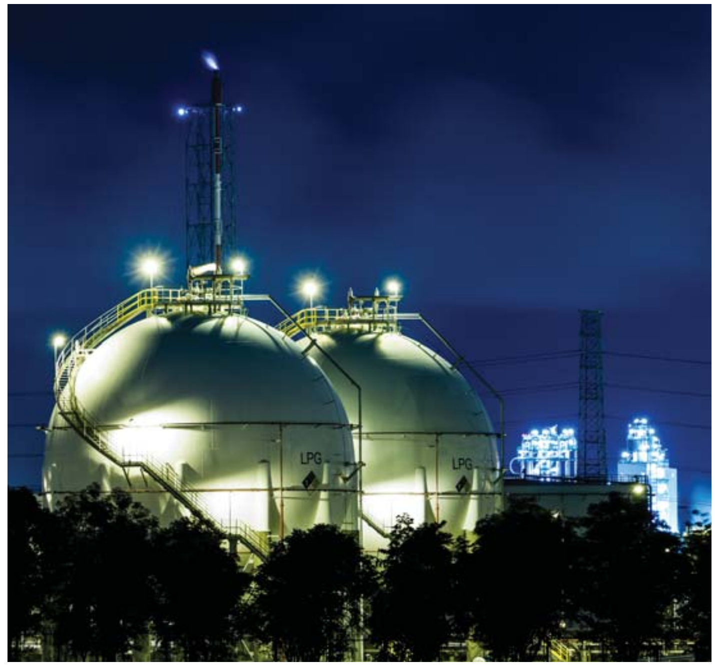
Airports are the next focus of privatization in Japan, where the government has confirmed plans to sell the airports servicing both the Kansai and Sendai regions. Bidding for the former should be completed in 2015, with a minimum price of 2.2 trillion yen (or just over US$20 billion), and more airports will be privatized if these are successful. Potentially assisting in the pace of future privatizations in the country, Japan is exploring the creation of a listed infrastructure market that would encourage further privatization by providing a tax-advantaged structure for infrastructure owners. Details of the structure could be decided by 2015.

Privatization of assets in the region extends beyond transportation infrastructure as well. The state government of New South Wales, Australia's most populous state, has indicated it will begin privatizing all of its electric grid assets starting in 2015 and 2016. The transmission and distribution assets are expected to fetch more than US$30 billion representing a significant opportunity for infrastructure companies in the region.

Another evolving avenue of infrastructure growth in the region relates to environmental spending, particularly in Mainland China and Hong Kong. Mainland China's leaders have increasingly shifted focus to environmental issues in the country as air quality has meaningfully deteriorated. Policies are being put in place to combat pollution by incentivizing a switch to cleaner fuel sources such as natural gas and renewables. These policies support the existing listed gas utility companies and provide them an incentive to continue growing through the acquisition of municipal-owned projects. To stimulate renewable generation, the government is investing in its electric transmission grid to allow for more connectivity and thereby allow for stable returns for builders and owners of wind and solar farms.

In Hong Kong, air quality is also a concern of the public, and the government is exploring two options to improve it: either building more natural gas-fired power generation plants or connecting the electric grid to the Mainland. Both options would allow the existing listed Hong Kong utilities to continue growing in what is typically thought of as an already mature market.

In summary, in both developed and emerging economies in Asia-Pacific, we see government policies and plans that continue to support the growth of listed infrastructure.



Energy demand is driving investment in resource rich Australia as other Asian countries seek alternative fuel sources. Liquefied Natural Gas, or LNG, will be consumed more than produced in Asia's developing economies by 2020, whereas Australia continues to have the potential for significant LNG production. The result has been a boom in LNG liquefaction plant construction. The projects' cost in the tens of billions of dollars, and are generally financed amongst a group of companies and investors. We currently estimate more than US$200 billion in total project spend for projects currently under construction in the region which are expected to have 8.2 billion cubic feet per day (Bcf/d) in capacity. While major integrated players have largely been driving the spending in the space, we expect opportunities will continue to emerge for midstream energy infrastructure players to participate in project economics or build supporting pipeline and storage infrastructure.

"Economic infrastructure drives competitiveness and supports economic growth by increasing private and public sector productivity, reducing business costs, diversifying means of production and creating jobs."[5]

CONCLUSION

Global listed infrastructure has delivered attractive returns over the long-term, outperforming global equities while producing lower levels of volatility, ultimately achieving significantly better risk-adjusted returns. Infrastructure investment is an important and strategic priority for countries globally and in most developed and emerging countries, infrastructure innovation, repairs, development and management are seen as critical to sustaining as well as enhancing existing living standards.

Today, infrastructure is attracting capital from various sources other than the more traditional public funding mechanism; both institutional and private company investment are playing an increasingly important role in meeting the strategic priority for countries worldwide. Listed infrastructure provides access to stable and predictable income streams alongside good diversification benefits in a liquid vehicle with potential to achieve competitive investment returns stemming from both income and capital appreciation potential.

We welcome the opportunity to share with you our capabilities at CBRE Clarion Securities for investment in this growing asset class. For more information please contact:

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[5]Source: OECD Pension Funds Investment in Infrastructure, A Survey, September 2011, 15.

GLOSSARY

Risk Statistic Definitions: Standard Deviation is a statistical measure of the historical volatility of the portfolio. Sharpe Ratio is a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. Dividend yield is the yield a company pays out to its shareholders in the form of dividends. It is calculated by taking the amount of dividends paid per share over the course of a year and dividing by the stock's price.

J.P. Morgan Global Government Bond Index measures the performance of leading government bond markets based on total return in U.S. currency. By including only traded issues, the Index provides a realistic measure of market performance for international investors. It is calculated by J.P. Morgan, and reflects reinvestment of all applicable dividends, capital gains and interest.

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 24 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

UBS Global Infrastructure and Utilities 50-50 Index. The UBS 50-50 is an unmanaged market-weighted index which consists of infrastructure and utility companies from developed markets whose floats are larger than US $500 million.

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