



CBRE CLARION SECURITIES
GLOBAL LISTED INFRASTRUCTURE
A PORT IN THE RISING TIDE OF INFLATION

SEPTEMBER 2013

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GLOBAL LISTED INFRASTRUCTURE EXECUTIVE SUMMARY



We believe that investors should hold assets that are resilient to inflation. Global listed infrastructure is an asset class that has a record of delivering superior inflation adjusted returns over time.

While inflation is not at the forefront of investor concerns at the moment, the use of massive injections of liquidity and quantitative easing may result in higher inflation in the future. Under such a scenario, maintaining the purchasing power of invested assets becomes paramount.

Global listed infrastructure has delivered a long-term track record of real total returns superior to world equities and U.S. bonds.

Businesses engaged in owning, operating and developing infrastructure tend to have characteristics that make them resilient to inflation including:

- High barriers to Entry
- Products with Few Substitutes
- A Highly Fragmented Customer Base
- Centrality of Assets to Society and Customers Served
- Contractual or Regulatory Links to Inflation
- High Levels of Cash Flows that Provide Attractive Returns to Shareholders

Enclosed we discuss these business attributes and the long term returns of global listed infrastructure securities.

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A BRIEF PERSPECTIVE ON GLOBAL INFLATION

Investors with a long term investment horizon face a common problem; namely, how to preserve the purchasing power of their assets. In this paper, we take the perspective of inflation as the goalpost to beat. While inflation has been subdued among developed nations over the last thirty years, we note that global inflation was on the rise in the mid-2000s up to the financial crisis. Inflation has since collapsed, along with economic activity. Nonetheless, the use of massive injections of liquidity and quantitative easing to stave off deflation and stimulate economic growth may result in higher inflation in the future.

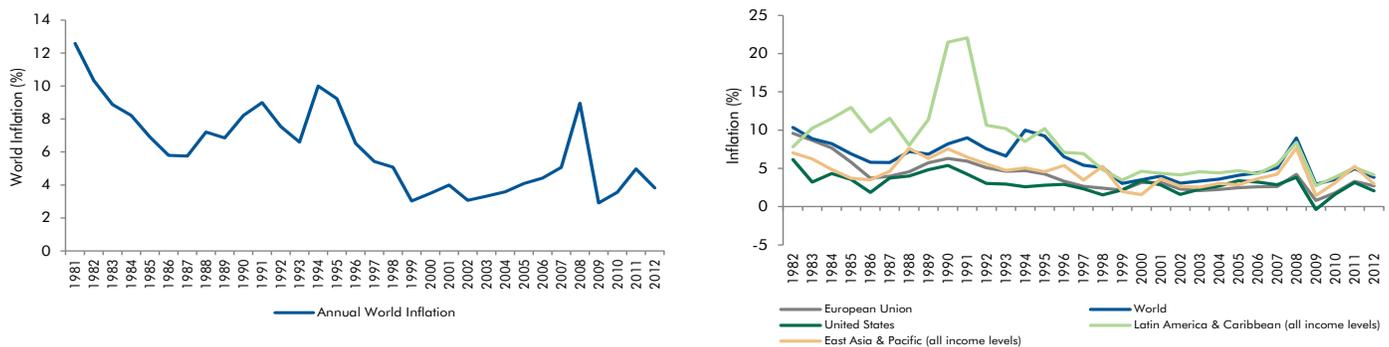
INFLATION HAS BEEN ON THE DECLINE GLOBALLY SINCE THE EARLY 1980s, PARTICULARLY IN DEVELOPED MARKETS.

Inflation has been on the retreat since the early 1980s and has been particularly subdued after the mid-1990s in developed markets such as the E.U. and U.S. World inflation, as tabulated by the World Bank since 1981, has averaged roughly 6% annually over this period, with a low of approximately 3% and a high of approximately 13%. Rates of inflation have varied markedly by geography, with inflation typically higher in Latin America and lower in the U.S. and E.U.

Despite a general downtrend in inflation, bouts of high inflation have not been uncommon globally, particularly in less developed nations.

Consider recent history in Latin America. Brazil had 15% annual inflation in 2003; Argentina had 26% inflation in 2002; Brazil had 66% inflation in 1995 and over 2,000% inflation in 1994. Even in Europe, Bulgaria had over 1,000% inflation in 1997. In Africa, numerous countries experienced hyperinflation, including Zimbabwe with over 24,000% inflation in 2007. Thus, the favorable trend in inflation since the early 1980s conceals a great deal of variability among nations and numerous local periods of hyperinflation.

World Inflation has been on the Decline since the Early 1980s, but the Trend Conceals Local Bouts of Inflation

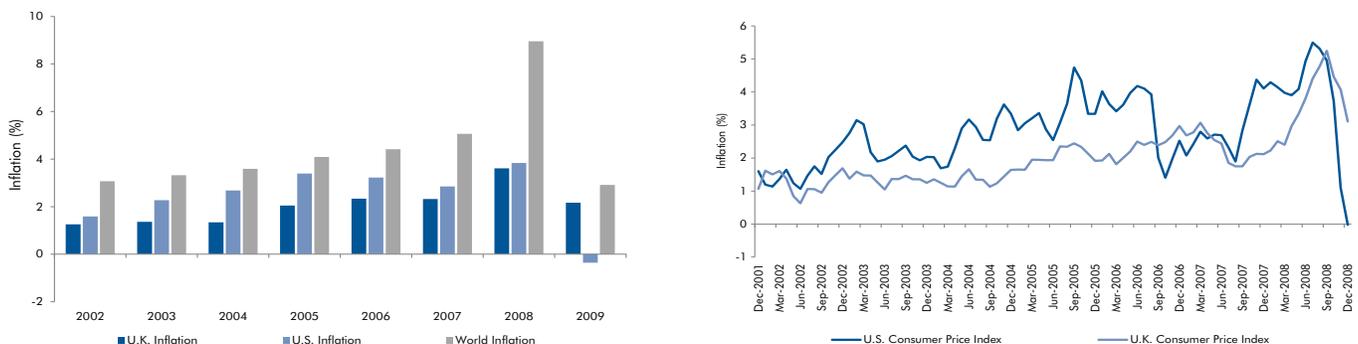


Source: World Bank annual inflation estimates as of 12/31/2012. Based on consumer price index approach.

INFLATION WAS FIRMLY ON THE RISE AHEAD OF THE GLOBAL FINANCIAL CRISIS.

Inflation was on an upward march between late 2001 and 2008. This period roughly coincides with the end of the shallow U.S. recession in November 2001 and the beginning of the global financial crisis that started in December 2007. Over this approximate period, global inflation rose from 3-4% to almost 9% in 2008. U.S. and U.K. inflation rose from approximately 1-2% to over 5% based on monthly data. The U.S. recession brought these inflationary surges to an abrupt end as shown in the charts below. Still, the inflationary forces at work through 2008 may again appear as the global economy continues to recover and the cumulative effects of quantitative easing take their toll.

Inflation was on the Rise Ahead of the Great Recession



Source: World Bank annual inflation estimates

Source: Bureau of Labor Statistics, Consumer Price Index is seasonally adjusted. U.K. Consumer Price Index from U.K. Office of National Statistics.

INFRASTRUCTURE BUSINESSES TEND TO BE RESILIENT TO INFLATION

Infrastructure business models are built to last and, thus, to withstand inflation. Businesses engaged in owning, operating, and developing infrastructure typically make large capital investments with the expectation that returns on investment will be realized over an extended period of time. By design, remuneration for such investments often includes some level of inflationary increases via contractual or regulatory mechanisms. Furthermore, infrastructure assets often play a central role to the societies and customers that they serve, making inflationary cost increases more likely.

Infrastructure is a diverse group of capital intensive and long lived assets. The group spans toll roads, railroads, airports, electric and gas distribution utilities, electric transmission, gas transmission pipelines, water distribution, and more. A common thread among these assets is that they are typically capital intensive, with both high dollar value of initial cost as well as on-going investments. A single asset can range from tens of millions up to the billions of dollars, take years to build, and is expected to remain in operation for 20 to 40 years.

Inflation is a major factor over the life of infrastructure assets, from inception to retirement.

Initially, in the construction phase, inflation poses a risk and an attempt is generally made to “lock in” costs and minimize cost creep. Upon completion, owners of many infrastructure assets seek concessions or operating agreements whereby the subsequent revenue stream is highly visible and has contractual or regulatory links to inflation. While the details vary widely by asset, we believe that the notion of inflation is fundamentally embedded in the business models for companies engaged in infrastructure.

We identify the degree of inflation resilience for businesses engaged in infrastructure by grouping them into two categories: those that are market oriented (Market Players) and those that are largely regulated (Regulated Players). For Market Players, we evaluate the degree of inflation resilience through the lens of five criteria similar to Porter’s Five Forces¹. This provides the framework for determining the degree of business rivalry for Market Players, with the underlying assumption that a low degree of rivalry facilitates managing inflationary pressures. For Regulated Players, we identify the degree of inflation resilience based on the level of regulatory support enjoyed by these businesses.

MARKET PLAYERS - LIMITED RIVALRY SUPPORTS INFLATION RESILIENCE.

For Market Players in infrastructure, business rivalry tends to be limited and, we believe, should help them manage through inflationary pressures. Market Players enjoy high barriers to entry given the scale and cost of their assets, and often perform a vital function for society and their customers. Moreover, their function is not easily substitutable and they tend to possess a high degree of bargaining power with customers and suppliers. In other words, competitive pressures are generally weaker than in many other industries. We evaluate the degree of rivalry for Market Players along five key dimensions as follows.

- 1. Threat of New Entry? Infrastructure has Significant Barriers to Entry.** Infrastructure businesses tend to possess high barriers to entry that can include scale, cost, rights of way, environmental, permits, zoning, specialized labor, and more. The assets can be difficult and sometimes impossible to replicate. Examples of such assets include railroads, airports, power generation facilities, and toll roads.
- 2. Competitive Rivalry? Competition in Infrastructure is Limited.** Existing competition can be limited due to the long-life of the assets (in-place for decades) and other barriers to entry outlined above. In some cases, this has led to regulatory oversight to limit market power. Examples include railroads, toll roads and airports.
- 3. Threat of Substitution? Threat of Product Substitution is Real, but Likely Limited.** In the long run, product substitution is possible but not easily achieved. For example, while numerous forms of transportation have emerged over the past 190 years to compete with railroads, railroads still occupy a critical role in U.S. infrastructure. They remain among the most economical of shipping choices for heavy industry. New airports can be built, but the approval process, costs, and environmental hurdles have led to expansion of existing locations rather than to new builds. The same is true for toll roads where competing roads can draw away traffic, but the limitation of land, environmental challenges as well as cost has led to expansions of existing roadways as a preference over building new ones.
- 4. Customer Power? Customer Power Generally Weak As Majority of Infrastructure Is Needed Rather than Discretionary.** In general, given limited alternatives and barriers to new entrants (as described in 1-3) customers lack alternatives to drive pricing. Much of infrastructure serves a vital need for them and is rather independent of economic forces compared to other industries. For example, toll roads, airports and railroads all serve an important function to their customers. Their customers are highly fragmented and likely have little bargaining power.
- 5. Supplier Power? Supplier Power Can Vary in Infrastructure.** Power over suppliers can vary depending on the industry. Railroads may be price takers with respect to fuel costs and a partially unionized workforce may exercise its leverage as inflation emerges. For towers, individual landowners are highly fragmented and have little bargaining power.

¹ Porter five forces analysis is a framework for industry analysis and business strategy development that determines the competitive intensity and therefore attractiveness of a market. See, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, Michael E. Porter, 1980.

The Five Forces analysis provides a framework for determining the predicted ability of the various infrastructure assets to hedge inflation. In addition to the level of regulatory oversight, we have added one other factor to consider in the table below. In some cases, the contracts or concession for infrastructure assets is explicitly linked to inflation. Examples include toll roads and gas gathering and processing facilities.

Based on this analysis, we would expect railroads, airports and toll roads to have strong resilience to inflation. Merchant power generation assets would fare the weakest in relation to inflation hedging.

REGULATED PLAYERS - REGULATORY SUPPORT KEY TO INFLATION RESILIENCE.

Natural monopolies, such as utilities, provide basic necessities such as water, electricity and gas to customers. Barriers to entry for these businesses are deemed so high that regulators have opted to fully regulate them. The extent to which inflation is passed through is determined by the level of regulatory support. That support can vary by asset type and region and even within region.

As an example, for U.K. utilities the inflation treatment is very favorable. Rate base (or Regulated Asset Base as it is referred to in the U.K.) is inflated by a retail price index and rates of return are expressed in real terms, as opposed to nominal terms. Hence, there is a direct pass through of inflation to the end user. On the other hand, in the U.S., an electric utility may typically pass through its inflation, but only through the regulatory process, which includes an extensive rate case proceeding in which all revenues and costs are evaluated.

In the table that follows we rank the degree of rivalry among Market Players according to five criteria and the degree to which revenues are contractually linked to inflation. More check marks indicate less rivalry in the industry, and thus more market power of players.

Market Players – Limited Rivalry Supports Inflation Resilience

Industry	Type of Assets Owned	Function	Market Based					Inflation Linked Contracts	Regulation
			High Barriers to Entry	Limited Existing Competition	Limited Substitutes	Power over Customers	Power over Suppliers		
Transportation Railroads	Railroad Tracks	Rail lines, land and rights of way; nearly irreplaceable assets with land rights	✓✓✓	✓✓✓	✓✓	✓✓✓	✓✓	✓	✓
Communication Towers	Wireless Communication Towers	Provides real estate for wireless network carrier equipment	✓✓✓	✓✓✓	✓✓	✓	✓✓✓	✓	nm
Transportation Airports	Airports and related Retail and Real Estate Operations	Airport Operations	✓✓✓	✓✓✓	✓✓	✓✓✓	✓✓	✓✓	✓
Communication Satellites	Launching and Operating Satellites	Provide signal capacity to military and private enterprise	✓✓✓	✓✓	✓	✓✓	✓	✓	
Transportation Toll Roads	Toll Road Operations	Road transport for both light and heavy vehicles	✓✓	✓	✓	✓✓✓	✓✓	✓✓✓	✓
Electric and Gas Utilities	Power Generation Plants Merchant	Electricity production in market based framework	✓✓	✓	✓✓	✓	✓✓	✓	nm
Energy	Oil & Gas Gathering/ Processing	Gathering and processing of oil, natural gas and natural gas liquids	✓	✓✓	✓✓✓	✓	✓✓✓	✓✓	nm

Regulated Players – Regulatory Support Key to Inflation Resilience

Industry	Type of Assets Owned	Function	Historical Level of Regulatory Support	Regulatory Lag to Inflation	Overall Regulation
Electric and Gas Utilities	Electric Transmission Lines	Inter-state subject to Federal regulation	✓✓✓	✓✓✓	✓✓✓
Water Utilities	Water Distribution and Management	Delivers water subject to State Regulation	✓✓✓	✓✓	✓✓✓
Energy	Oil & Gas Inter-State Pipelines	Delivers oil, natural gas and natural gas liquids	✓✓✓	✓✓✓	✓✓✓
Energy	Gas Distribution Pipelines	Local utilities, subject to State regulation	✓✓✓	✓✓	✓✓✓
Electric and Gas Utilities	Electric Distribution Wires	Local utilities, subject to State regulation	✓✓	✓✓	✓✓
Electric and Gas Utilities	Power Generation Plants Regulated	Electricity power production by local utilities, subject to State regulation	✓✓	✓✓	✓✓

Note: The higher the number of check marks, the higher the market power of players or the more constructive the regulation. nm = not meaningful

INFRASTRUCTURE DELIVERS SUPERIOR PURCHASING POWER IN USD TERMS

Given that infrastructure assets tend to have inflation resiliency, it should come as no surprise that listed infrastructure securities tend to outperform bonds or a broad basket of international equities in real terms.

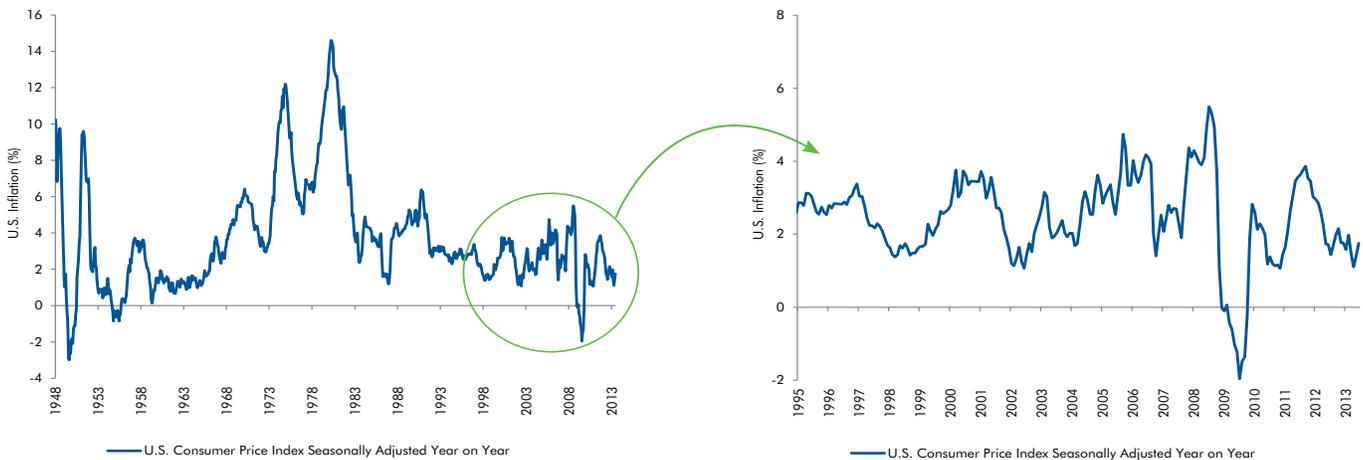
In the chart below, we show the real total return of the UBS Global Infrastructure & Utilities Index (UBS 50-50 Infrastructure Index) against the real total return of the MSCI World Index (MSCI) and the Barclays U.S. Aggregate Bond Index. In this analysis, we implicitly take the point of view of a U.S. investor who seeks to maintain the purchasing power of dollar denominated assets. We adjust nominal total returns for the respective indices for changes in the U.S. Consumer Price Index to obtain their respective real total returns². By means of background, historical U.S. inflation is also shown below. U.S. inflation has averaged approximately 3.7% from 1950 to 2012. Following the end of the Second World War, inflation was generally trending up and peaked at approximately 14% in 1980. Thereafter, it has trended down and is approximately 2%.

Infrastructure Delivers Superior Purchasing Power In USD Terms



Source: UBS Global Infrastructure & Utilities 50-50 Index, U.S. Consumer Price Index, MSCI World Index and Barclays U.S. Aggregate Bond Index data as from 12/31/1995 to 07/31/2013, adjusted for changes in CPI. CPI seasonally adjusted all items. Global Infrastructure: UBS Global Infrastructure & Utilities 50-50 Index; Inflation: U.S. Consumer Price Index; Global Equities: MSCI World Index; U.S. Bonds: Barclays U.S. Aggregate Bond Index

U.S. Inflation has Trended Down since Peaking in 1980



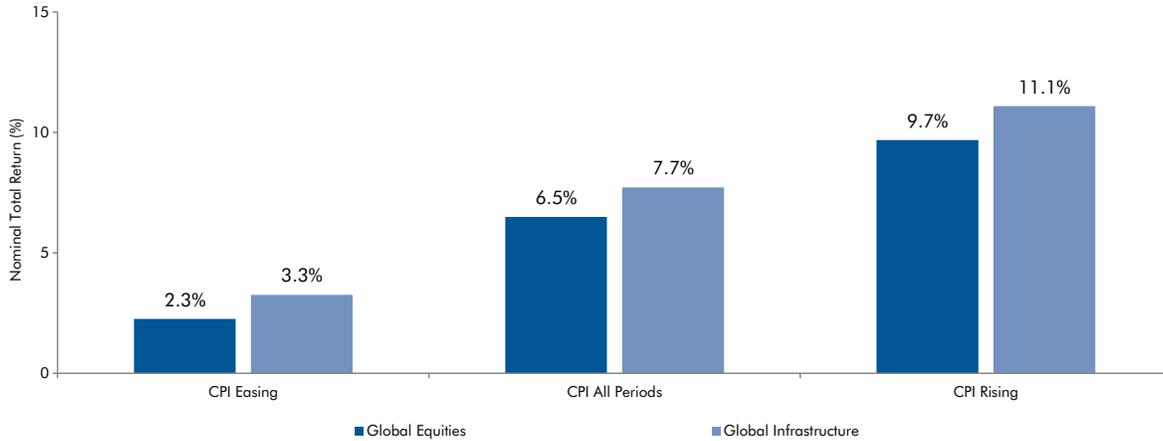
Source: Bureau of Labor Statistics as of 07/31/2013, Consumer Price Index seasonally adjusted, all items.

² Real rate of total return calculated on a monthly basis by adjusting the nominal total return by the rate of inflation. We use month to month changes in seasonally adjusted U.S. CPI, all items, as a proxy for inflation.

LISTED GLOBAL INFRASTRUCTURE SECURITIES HAVE HIGHER NOMINAL TOTAL RETURNS IN PERIODS OF RISING U.S. INFLATION.

As shown in the chart below, global listed infrastructure stocks tend to appreciate most during periods of rising inflation. This is to be expected. Periods of rising inflation since the mid-1990s have tended to be coincident with strong economic activity and bull markets in stocks. It is also noteworthy that global infrastructure has outperformed the MSCI over all periods.

Infrastructure Total Returns Tend to Increase in Periods of Rising CPI

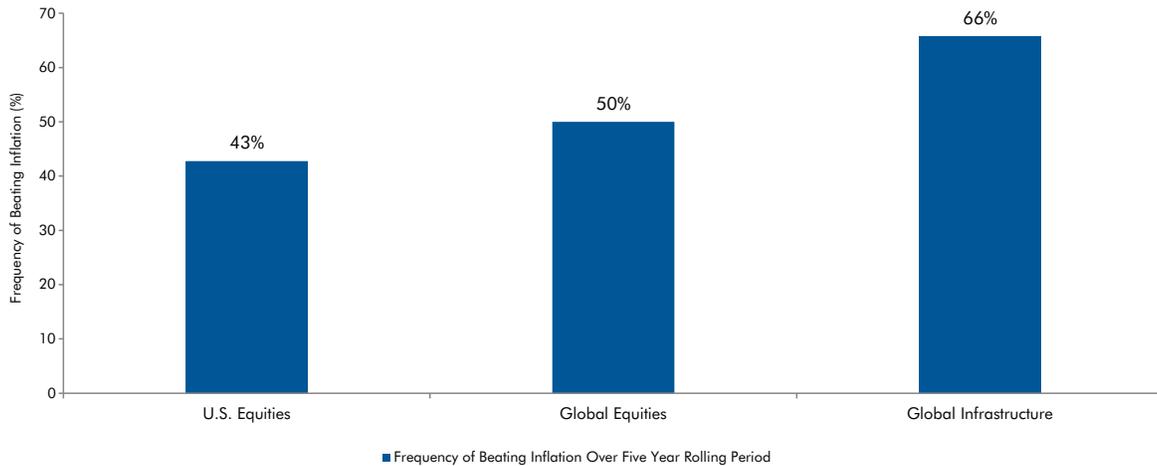


Source: UBS Global Infrastructure & Utilities 50-50 Index, U.S. Consumer Price Index, MSCI World Index from 12/31/1995 to 07/31/2013. Global Infrastructure: UBS Global Infrastructure & Utilities 50-50 Index; Global Equities: MSCI World Index

OVER A FIVE YEAR ROLLING PERIOD, GLOBAL INFRASTRUCTURE TOTAL RETURNS TEND TO BEAT U.S. INFLATION.

Over a five year rolling period, global infrastructure total returns beat inflation more frequently than equity peers. We believe that this is in part due to the high dividend yield that infrastructure assets support. From the inception of the UBS 50-50 Infrastructure Index, we estimate that approximately 46% of the nominal total return is due to dividends since inception. This compares favorably to the MSCI which derives only 34% of its total return from dividends over the same period.

Frequency of Beating Inflation Over a Five Year Rolling Period



Source: S&P 500 Index, UBS Global Infrastructure & Utilities 50-50 Index, and MSCI World Index from 12/31/1995 to 07/31/2013. U.S. Equities: S&P 500 Index; Global Infrastructure: UBS Global Infrastructure & Utilities 50-50 Index; Global Equities: MSCI World Index



CONCLUSION

The use of massive injections of liquidity and quantitative easing to stave off deflation and stimulate economic growth may result in higher inflation in the future. Under such a scenario, maintaining the purchasing power of invested assets becomes paramount. Businesses engaged in infrastructure are uniquely positioned to manage the impact of inflation. By design, remuneration for infrastructure investments often includes some level of inflationary increases via contractual or regulatory mechanisms. Furthermore, infrastructure assets often play a central role to the societies and customers that they serve, making inflationary cost increases more feasible. Thus, it should come as no surprise that listed infrastructure securities have outperformed bonds or a broad basket of international equities in real terms since 1995.

Demonstrated inflation resilience suggests listed infrastructure may be attractive to investors. Infrastructure securities have a track record of inflation hedging while also providing capital appreciation and high levels of current income.

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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GLOSSARY

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. 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 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.

Standard & Poor's 500 Index is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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*.

Barclays U.S. Aggregate Bond Index. The U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS. The U.S. Aggregate rolls up into other Barclays flagship indices, such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt. The U.S. Aggregate Index was created in 1986, with index history backfilled to January 1, 1976.

IMPORTANT DISCLOSURES

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Past performance of various investment strategies, sectors, vehicles and indices are not indicative of future results. Investing in infrastructure securities involves risk including to potential loss of principal. Infrastructure equities are subject to risks similar to those associated with the direct ownership of infrastructure assets. Portfolios concentrated in infrastructure securities may experience price volatility and other risks associated with non-diversification. While equities may offer the potential for greater long-term growth than some debt securities, they generally have higher volatility. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations. There is no guarantee that risk can be managed successfully. There are no assurances performance will match or outperform any particular benchmark. Indices are unmanaged and not available for direct investment. A09242013

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