COHEN & STEERS

Positioning for waves of change with listed infrastructure

by **Benjamin Morton**

Innovation in data transmission and renewable energy, a reopening economy and historic policy support are combining to create attractive infrastructure opportunities for investors looking to build more resilient portfolios.

Investing in clean energy and data growth

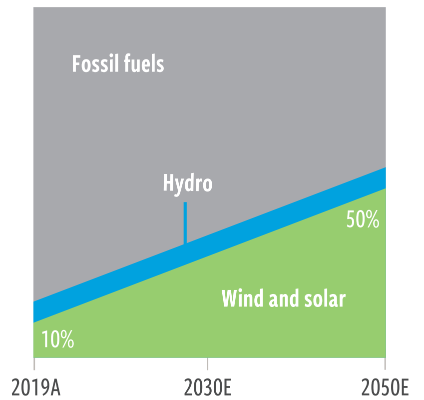
The global economy is being transformed by the shift to renewable energy from fossil fuels and by increasing reliance on faster, more advanced mobile technology platforms. We believe infrastructure segments such as utilities, cell towers and data centers could directly benefit from these megatrends.

EXHIBIT 1

A changing world requires new infrastructure support

More clean energy demand

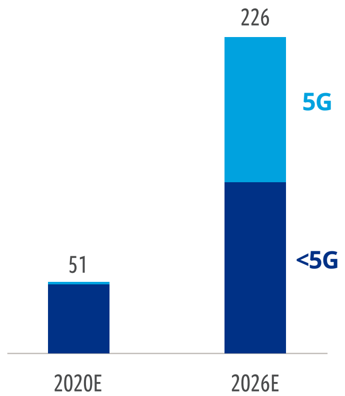
U.S. power mix



Renewables are estimated to make up 50% of U.S. power generation by 2050

More data consumption

Projected global wireless data usage, exabytes per month



5G is estimated to account for 54% of mobile data by 2026

At July 2020. Source: Energy Information Administration (historical), Wells Fargo Securities (estimates), Cohen & Steers representation.

At November 2020. Source: Ericsson Mobility Report.

There is no guarantee that any market forecast or investment objective set forth in this presentation will be realized. See page 4 for additional disclosures.

KEY TAKEAWAYS

Clean energy and the buildout of 5G data networks stand to benefit utilities and digital infrastructure businesses.

Fiscal and monetary stimulus and vaccine distribution are driving increasing trade and travel activity, benefiting transportation infrastructure.

Listed infrastructure has a history of equity-like returns but with lower volatility and strong relative performance in inflationary periods.

Carbon reduction initiatives accelerating the shift to renewables

President Biden's recent $2.4 trillion infrastructure proposal is the latest in a growing list of global initiatives supporting renewable energy. As wind and solar generation has become more economically competitive through innovation, scale efficiencies and tax incentives, most U.S. utilities have been actively building out renewable energy assets. We believe these investments, along with grid modernization efforts, have the potential to drive significant growth opportunities for U.S. electric utilities and renewable energy developers.

Increasing data usage driving digital infrastructure buildout

In a potential sign of global demand for more data, Apple sold 10 million more iPhones in the last quarter of 2020 versus the same quarter in 2019 (up 15%) on the strength of its first 5G device.[1] Rapid growth in data usage is likely to require massive investments to expand digital infrastructure capacity over the next decade. We believe this stands to directly benefit the cell tower industry. The spike in both wireless and wired data traffic also has the potential to drive sustained demand for data centers.

How the $2.4T Biden plan could benefit listed infrastructure

- New tax incentives and stronger demand for renewable energy (electric utilities and wind/solar developers)
- New revenue opportunities for digital infrastructure expansion (cell towers and data centers)
- Fiscal boost to economic growth prospects (most infrastructure subsectors, but especially transportation)

Further reading >

Getting the world moving again

Fiscal stimulus and vaccine progress driving economic prospects

Roughly $30 trillion[2] in global fiscal and monetary stimulus, combined with accelerating vaccine distribution, has put global growth in 2021 on course to potentially hit a 50-year high. Particularly in the U.S., business restrictions have been easing, and consumers (who have generally been saving during the pandemic) appear ready to spend. These trends point to the potential for stronger growth and higher long-term inflation—conditions which have historically been favorable for infrastructure businesses.

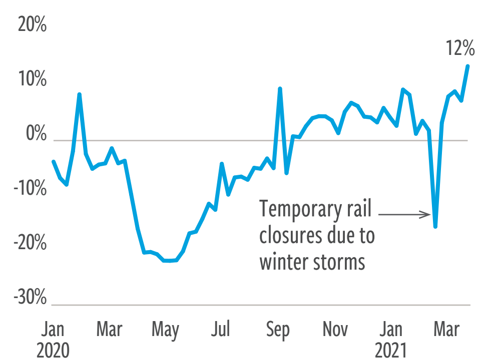
Increasing activity by rail, road and air

A continued economic recovery would likely have the largest impact on transportation infrastructure. Freight rail volumes have experienced a resurgence from the recovery of the goods-based economy (Exhibit 2). Increasing toll road traffic has demonstrated the potential for a rapid recovery as vaccines become more widely available and as travel resumes, particularly in Europe. We expect a more gradual recovery in air travel due to the continued adoption of cost-efficient virtual meetings.

EXHIBIT 2

Rail traffic has benefited from an improving economy

Year-over-year change in carloads



At March 31, 2021. Source: Association of American Railroads. **Data quoted represents past performance, which is no guarantee of future results.** There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend will begin. The mention of specific sectors is not a recommendation or solicitation to buy, sell or hold any particular security and should not be relied upon as investment advice. See page 4 for additional disclosures.

COMPANY EXAMPLES

Renewable energy	Cell towers	Freight rail
NextEra Energy The world's largest generator of wind and solar energy (almost all of which is under long-term contracts), with $50+ billion in new infrastructure investments planned through 2022	**American Tower Corp.** The world's largest independent owner, operator and developer of wireless infrastructure, with 186,000 communications sites across five continents	**Norfolk Southern** Operates the largest intermodal network in eastern North America, transporting consumer and industrial goods from container ports to local markets over 20,000 miles of railways

Examples chosen based on their size and scope within their respective industries.

(1) Gartner, February 22, 2021.
(2) BofA Securities Global Research; March 25, 2021 ($28 trillion), plus President Biden's $2+ trillion infrastructure plan.

Designing more resilient portfolios with infrastructure

Potential for attractive returns with lower volatility

Extraordinary policy actions and a reopening economy are adding urgency for investors to address risks of rising interest rates and higher inflation at a time of low bond yields and elevated equity valuations. Listed infrastructure offers investment characteristics that may help diversify portfolios for the current environment, including a history of equity-like returns, with lower volatility and greater resilience in down markets (Exhibit 3). We believe this is largely a result of infrastructure business models focused on owning and operating essential assets that generate relatively predictable cash flows, often in regulated industries or markets with high barriers to entry.

Attractive historical inflation sensitivity

Many infrastructure assets receive contractual adjustments to user fees that provide either fixed annual increases approximating inflation, or variable increases linked to consumer or producer price changes (Exhibit 4). Furthermore, certain subsectors, particularly in transportation, may stand to benefit from rising throughput in a strengthening economy. As a result, listed infrastructure has historically delivered strong relative returns in inflationary periods (Exhibit 5).

Potential value at current price levels

Listed infrastructure experienced a significant price reset during pandemic shutdowns due to the direct impact on travel, trade and energy markets in 2020, driving relative valuations to their cheapest levels in over a decade. At March 31, 2021, global listed infrastructure traded at a –1.3x cash flow multiple discount to global equities, compared with a 1.3x pre-pandemic premium (2011–2019).

EXHIBIT 3

10-year performance characteristics

Annualized return	Global infrastructure	**8.2%**
	Global stocks	9.9%
Standard deviation	Global infrastructure	**11.7%**
	Global stocks	14.0%
Up/down capture vs. global stocks	Upside capture	64.1%
	Downside capture	**55.5%**

At March 31, 2021. Source: FTSE, MSCI, FactSet.
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EXHIBIT 4

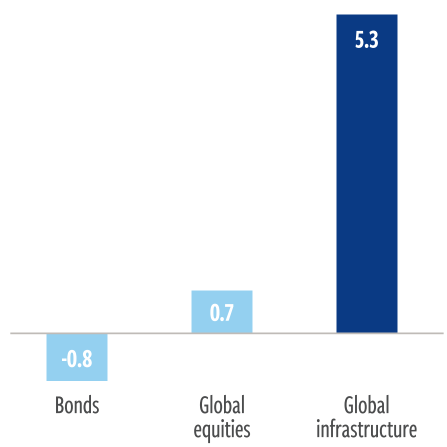
Inflation pass-through characteristics depend on the sector[(a)]

Infrastructure revenue models	Sub-sectors (index weight)	Inflation linkage
Regulated	Electric utilities (40%) Gas distribution (7%) Water (3%)	Inflation factored in when determining consumer rates and included in utility project costs that can affect a utility's rate base.
Concession-based	Toll roads (9%) Airports (9%)	Local government agreements allow service rate increases based on fixed amounts above inflation rate.
Contracted (GDP sensitive)	Midstream energy (11%) Freight rails (7%) Ports (3%)	Contracted rates typically include escalators if inflation exceeds a specified level; economically sensitive volumes can indirectly offset inflation.
Contracted (non-GDP sensitive)	Communications (10%)	Most service contracts include fixed revenue escalators to offset inflation impact.

EXHIBIT 5

Strong relative returns in inflationary environments

Beta to unexpected inflation
May 1991 – March 2021[(b)]



At March 31, 2021. (a) Source: FTSE index weights, Cohen & Steers analysis. (b) Source: Cohen & Steers proprietary analysis, Bloomberg, Thomson Reuters Datastream, U.S. Bureau of Labor Statistics. Inflation beta calculates the linear regression beta of 1-year real returns to the difference between the year-over-year realized inflation rate and lagged 1-year ahead expected inflation, including the level of the lagged expected inflation rate. Expected inflation as measured reflects median inflation expectation from University of Michigan Survey of 1-Year Ahead Inflation Expectations. Realized inflation is measured by the Consumer Price Index for all Urban Consumers. Linear regression is a statistical method that models the relationship between a dependent variable and one or more explanatory variables.
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Summary

Strong secular trends

Major digital communications and renewable energy innovations are driving compelling secular infrastructure growth themes.

Improving macroeconomic backdrop

Government stimulus and economic recovery are creating a highly constructive backdrop that may bode well for listed infrastructure companies.

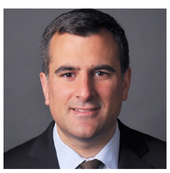
Attractive investment characteristics

Discounted relative values and multiple potential catalysts could offer attractive entry points for listed infrastructure allocations in 2021, providing access to an asset class that has historically delivered equity-like returns but with lower volatility and greater inflation sensitivity.

For more details, see our full report,

Data, decarbonization and the travel recovery

cohenandsteers.com/insights >



Benjamin Morton, Executive Vice President, is Head of Global Infrastructure and a senior portfolio manager for Cohen & Steers' infrastructure portfolios, including those focused on master limited partnerships. He has 22 years of infrastructure-related investment experience.

Index definitions and important disclosures

Diversification does not ensure a profit nor protect against a loss. 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.

Global listed infrastructure: FTSE Developed Core Infrastructure 50/50 Index, a market-capitalization-weighted index of infrastructure and infrastructure-related securities in worldwide developed markets; 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. **Global equities:** MSCI World Index, a free-float-adjusted index that measures performance of large- and mid-capitalization companies representing developed market countries and is net of dividend withholding taxes. **Bonds:** ICE BofA U.S. 7-10 Year Treasury Index is composed of U.S. Treasury Notes with a 7-10-year maturity.

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