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REAL ASSETS. REAL RETURNS.

Built to Last

Investing in Global Listed Infrastructure

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Highlights

- **Why infrastructure?** Listed infrastructure has historically offered equity-like returns, but with lower volatility and greater downside protection relative to global equities.
- **Why now?** In an era of strained government budgets, we expect many infrastructure spending plans will turn to the private sector to finance, own and operate infrastructure assets, expanding the pool of investment opportunities.
- **Why active management?** A skilled active manager offers the potential to enhance risk-adjusted returns by taking advantage of the significant performance dispersion across subsectors and geographies.

Interest in global listed infrastructure has grown significantly in recent years, resonating among investors seeking to reduce risk while maintaining attractive total return potential. With more governments making infrastructure a priority after decades of underinvestment, the private sector is playing an increasing role in providing capital, creating new opportunities for investors.

What Is Infrastructure?

Infrastructure assets form the backbone networks that support essential services enabling communities to function and economies to grow. The $2 trillion global listed infrastructure universe consists primarily of companies that own and operate these assets, grouped into four main categories:

Midstream Energy

Energy transportation, gathering & processing, storage

Utilities

Electricity, natural gas, water, renewables

Communications

Wireless towers, satellites

Transportation

Toll roads, marine ports, railways, airports

Company Examples			
TransCanada	American Water Works	American Tower	Union Pacific
Kinder Morgan	Edison International	Eutelsat	Aéroports de Paris
Cheniere Energy	Red Electrica	INWIT	Jiangsu Expressway

Source: Cohen & Steers.

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These businesses have common characteristics that unite them as an asset class:

- **Long-lived assets:** Infrastructure assets typically have useful lives of several decades, providing a long-term source of income.
- **High barriers to entry:** Strict zoning restrictions, large capital requirements and, in some cases, exclusivity agreements make it difficult or prohibitive for competitors to enter the market.
- **Inelastic demand:** Infrastructure provides essential services that often remain in demand even in periods of economic downturns.
- **Predictable cash flows:** Infrastructure assets are often regulated or operate under long-term contracts or concession agreements, typically resulting in greater cash flow stability relative to many other businesses.

Why Invest in Infrastructure?

Historically, listed infrastructure has been a defensive and often countercyclical asset class, generally outperforming the broader equity market during business cycle downturns and periods of widening credit spreads, slowing growth and falling bond yields. The distinguishing historical characteristics of listed infrastructure have contributed to a significant rise in allocations in recent years (Exhibits 1, 2).

Exhibit 1: Global Listed Infrastructure Characteristics
7/14/2008[a]–Q3 2017

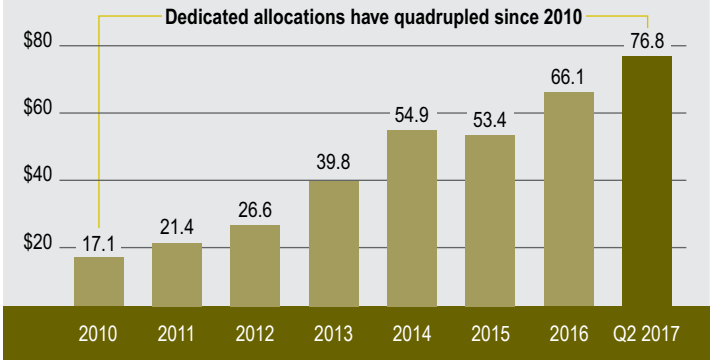
	Global Infrastructure	Global Equities
Annualized Total Return Infrastructure has delivered competitive returns relative to the broad market	8.7%	6.6%
Standard Deviation Relatively predictable cash flows have led to lower volatility	13.8%	16.4%
Sharpe Ratio Infrastructure has produced attractive risk-adjusted returns	0.61	0.38

	Upside Capture	Downside Capture
Downside Protection Infrastructure has been relatively resilient in down markets	75.0%	65.9%

At September 30, 2017. Source: Morningstar Direct, Cohen & Steers.

Data quoted represents past performance, which is no guarantee of future results. The information presented above does not reflect the performance of any fund or account managed or serviced by Cohen & Steers. Standard deviation is a statistical measure of volatility. Sharpe ratio measures the efficiency of returns, represented here as total return divided by standard deviation. Upside/downside capture represents the average proportional return relative to the broad market in months of positive/negative performance, respectively. (a) Dow Jones Brookfield Global Infrastructure Index inception date. See page 4 for index associations, definitions and additional disclosures.

Exhibit 2: Global Listed Infrastructure Assets Under Management
Billions



At June 30, 2017. Source: eVestment.

There is no guarantee that any historical trend illustrated herein will be repeated in the future, and there is no way to predict precisely when such a trend will begin. See page 4 for additional disclosures.

Why Own Infrastructure Now?

Growth Opportunities From Infrastructure Privatization

After 50 years of underinvestment and deteriorating service quality in many developed countries, governments have begun approaching infrastructure spending as a tool to stimulate growth and improve their global competitiveness. This shift in attitude comes at a crucial time, as headline events ranging from Flint, Michigan-type water crises to the latest freight or passenger train derailment have reinforced the pressing need to spend more on infrastructure globally.

In the last two years, Canada unveiled a $147 billion infrastructure program, Brazil has begun implementing its $60 billion infrastructure investment plan and the U.K. outlined a record $634 billion infrastructure investment pipeline. This is in addition to investment plans announced by China, Australia, Japan and others.

Despite the calls for increased infrastructure investment, many government balance sheets are already stretched to the limits of fiscal responsibility. As a result, we expect many infrastructure spending packages will look to the private sector to finance, own and operate these assets. In our view, this capital void is creating the most favorable environment for private-sector infrastructure opportunities in a generation.

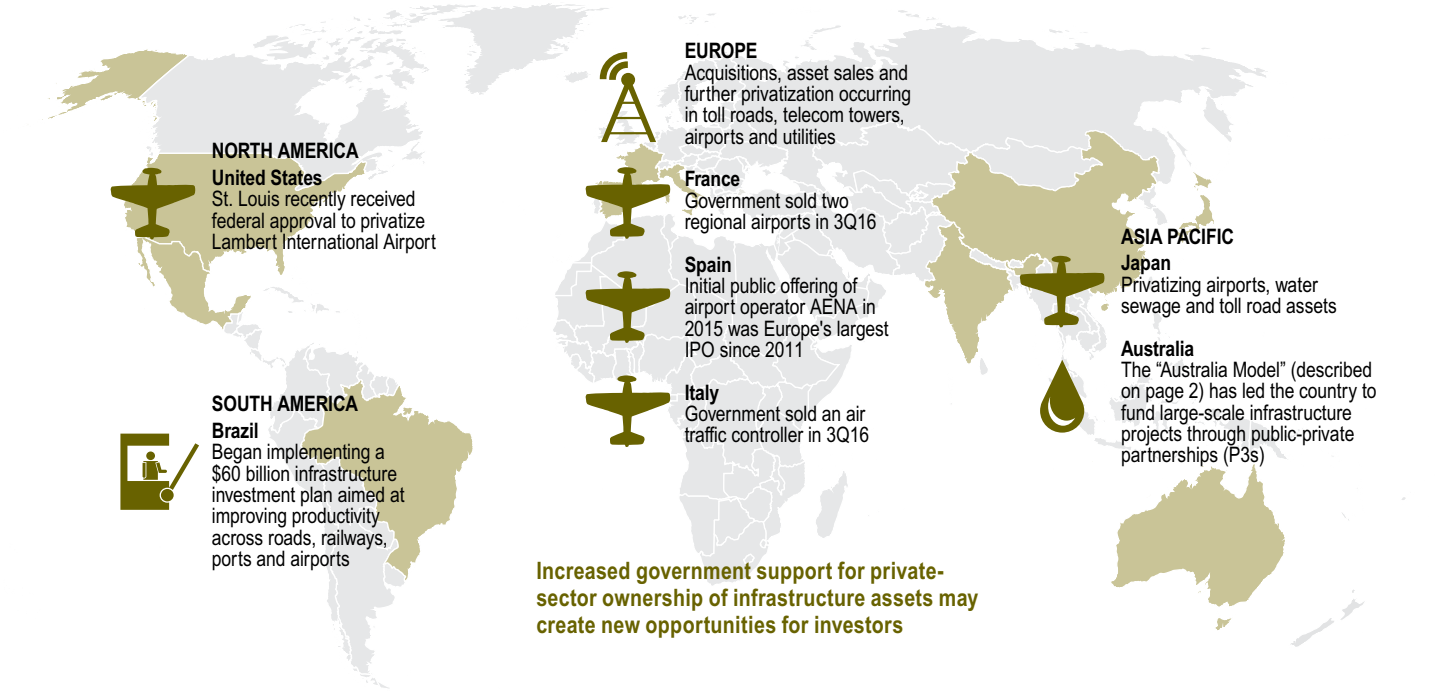
The trend of infrastructure privatization has already led to a wide range of new opportunities around the world (Exhibit 3). In the U.S. and Canada, lawmakers have also discussed infrastructure privatization plans modeled after Australia's asset recycling program. In this process, state-owned assets are auctioned off to the private sector, with the proceeds used to finance other critical infrastructure projects—providing a potential win/win for investors and the general public.

Valuation Support From Significant Private Investment

As demand for private investment opportunities in infrastructure continues to rise, many private infrastructure fund managers have had difficulty deploying their capital. With only a handful of active opportunities that exist at any given point in time, competition for assets is high, ultimately driving asset prices up and expected returns down. As a result, over $150 billion of capital raised by private infrastructure funds is sitting idle, waiting to be invested (Exhibit 4). By contrast, listed infrastructure investors have been able to implement allocations immediately due to the liquidity of public markets.

Importantly, recent private infrastructure transactions have commanded notable premiums—well above implied cash flow multiples for listed infrastructure companies (Exhibit 5). We believe these factors are providing a rising floor of support for listed infrastructure valuations.

Exhibit 3: Global Infrastructure Privatization

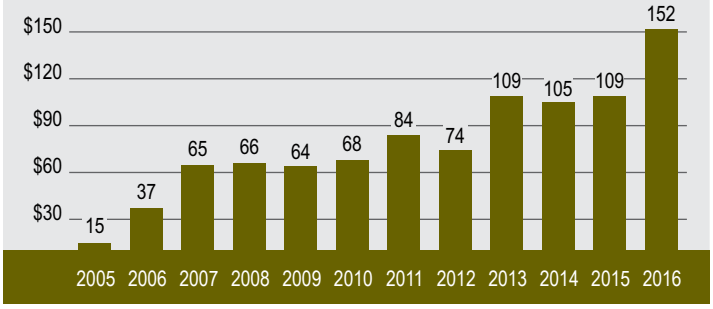


At September 30, 2017. Source: Cohen & Steers.

Exhibit 4: Private Infrastructure Dry Powder

Billions of Uninvested Capital Commitments[(a)]

Strong demand from private infrastructure investors has led to a record level of dry powder, providing support for listed infrastructure valuations.



At September 30, 2017. Source: Preqin, Goldman Sachs, Cohen & Steers.

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(a) Dry powder is the amount of capital that has been committed to a private equity fund minus the amount that has been called by the general partner for investment.

Exhibit 5: Private Infrastructure Transactions

Private investors are buying assets at prices 25–30% above comparable listed market assets, based on our estimates.

Asset	Country	Buyer	Year	EV/ EBITDA
Gas Natural Fenosa's Gas Distribution Assets	Spain	Allianz, CPPIB	2017	15.7x
La Serena-Vallenar Highway	Chile	Toesca Infraestructura	2017	19.0x
OHL Mexico	Mexico	IFM Investors	2017	13.0x
U.K. Gas Distribution Network	U.K.	Consortium	2016	12.0x
A6 Autoroute	France	APRR	2016	26.8x
Chicago Skyway	U.S.	Calumet Concession Partners	2015	31.0x
Indiana Toll	U.S.	IFM Investors	2015	32.0x
Vienna airport	Austria	IFM Investors	2014	9.5x
Toulouse airport	France	Chinese Consortium	2014	19.5x
AIX	Australia	Future Fund	2013	15.3x
Average				**19.4x**

At September 30, 2017. Source: Preqin, Goldman Sachs, Cohen & Steers.

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The Big Picture

Over the long term, the global listed infrastructure universe may benefit from greater government support for the privatization of critical infrastructure assets. In our view, this could result in a larger listed infrastructure universe, creating new growth opportunities for existing listed infrastructure companies through the acquisitions of privatized assets and the development of new assets.

The Case for Active Management

Historically, listed infrastructure returns have varied widely due to geography and subsectors. These differences underscore the importance of fundamental analysis, which is at the core of active management.

By investing in an actively managed portfolio of global infrastructure securities, investors may benefit from the insights of professional asset managers, who can adjust a portfolio's allocation based on their view of the risks and opportunities offered by various securities and market segments.

The Cohen & Steers Advantage

Experienced Global Investment Team

- Global team whose members average 13 years of infrastructure-related investment experience
- Portfolio managers joined in 2003 and have one of the longest track records in listed infrastructure
- Expertise in both analyzing infrastructure assets and valuing infrastructure securities

Substantial Market Position

- Size and scale provides access to company management, regulators and other market participants
- $6.3 billion in global listed infrastructure assets under management across all Cohen & Steers strategies, as of September 30, 2017

Rigorous Investment Process

- Combines top-down macro-level sector and country analysis with bottom-up company-level research
- Strict focus on owners and operators of infrastructure assets

This report was edited by Steve Heller.

Index Definitions. *An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes.* Global listed infrastructure: Dow Jones Brookfield Global Infrastructure Index, a float-adjusted market-capitalization-weighted index that measures performance of globally domiciled companies that derive more than 70% of their cash flows from infrastructure lines of business. Global equities: MSCI World Index, a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets.

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