DUFF & PHELPS
INVESTMENT MANAGEMENT CO.

OUTLOOK

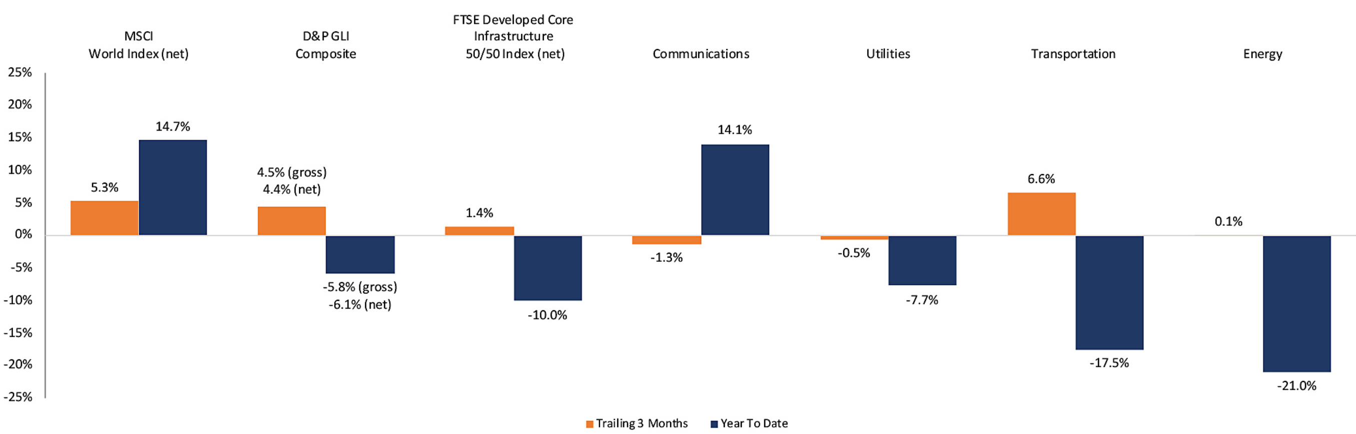
POSITIONED FOR PERFORMANCE: GLOBAL LISTED INFRASTRUCTURE

August 31, 2020

"Our objective is to invest in companies with experienced management teams, predictable business models, and a likelihood of success post the crisis period."

The global equity markets continued their remarkable recovery from the depths of the crisis-induced rout, with the MSCI World Index, net, posting a 14.7% total return over the three months ending August 31, 2020 and 5.3% year to date. In comparison, global listed infrastructure stocks (as measured by FTSE Developed Core Infrastructure 50/50 Index, net) gained 1.4% for the three months ended August 31, 2020, and have declined -10.0% on a year-to-date basis. The Duff & Phelps Global Listed Infrastructure Composite has outperformed its benchmark in the trailing three months and year to date periods by 309 bps and 424 bps (gross), and 296 bps and 394 bps (net), respectively.

Global Listed Infrastructure: Total Return Performance – Benchmark Sectors



Source: FTSE, Bloomberg. FTSE Developed Core Infrastructure 50/50 Index sector returns.

While global listed infrastructure is typically considered defensive, this downturn and recovery have been unique in that the pandemic most directly impacts the transportation and energy infrastructure sectors, which comprise ~40% of our global listed infrastructure universe. Additionally, technology stocks have been a significant driver of the broader equity market rebound, resulting in a performance gap between the various market sectors, including those that include infrastructure.

Given the dire mood around the world when first quarter earnings were reported, second quarter earnings releases have been particularly interesting to observe. From a broad perspective, business conditions have shown some improvement in June and July, but management teams are still cautious about the future.

We see opportunities for our Global Listed Infrastructure Strategy in this environment, as market volatility has created increasingly attractive valuations. Our objective is to invest in companies with experienced management teams and predictable business models that are positioned for success beyond the crisis period.

As we look to the rest of the year, below are some of the trends we see for each of the infrastructure sectors:

COMMUNICATIONS

BULLISH LONG-TERM OUTLOOK ON WIRELESS TOWER COMPANIES.

Wireless towers have been favored by the markets during this unusual year, buoyed by the resilience of their business models. However, investors registered concern when US companies reported slower tower growth for the second quarter and expressed some caution about demand for the second half of 2020, even though guidance for the year was not changed.

In Europe, the independent tower model is accelerating, as more telecommunications carriers are considering selling off their tower portfolios. This is providing significant opportunity for tower companies to grow through acquisition, while also constructing new towers to meet demand.

5G buildout is just beginning and is a multi-year process, so tower companies' runway for related growth is still quite long. Investment by telecommunications carriers will necessitate more wireless towers, including small cells and fiber networks, to meet increasing levels of data and video usage.

UTILITIES

CLEAN ENERGY TRANSITION IS A CONSTRUCTIVE LONG-TERM TREND.

We have a positive bias toward utilities focused on the clean energy transition. Zero-emission mandates and renewable targets set by states and countries around the world support a constructive long-term trend for the utilities sector.

Capital investment strategies and supportive regulation of our US utilities holdings provide an attractive platform for visible, long-term earnings and dividend growth.

In our opinion, utilities have much to offer that is currently being overlooked: strong earnings visibility; momentum from an emerging "green" theme; and attractive valuations relative to the broader market.

TRANSPORTATION

AS ECONOMIES EMERGE FROM COVID-19 LOCKDOWNS, RECOVERY WILL VARY.

North American railroads are seeing volume declines begin to moderate, and continued progress is expected in the second half of the year. As volumes recover, operating ratios should also improve due to efficiency measures from precision scheduled railroading that has been implemented in recent years.

Week-over-week traffic trends for toll roads have shown some solid improvement as lock downs have eased. The summer holiday season in Europe has provided a boost to toll roads, as we are seeing a switching effect from air and rail travel. However, we remain watchful, as a resurgence in COVID-19 infections could slow the continuation of gains made so far. Potential changes to working and commuting patterns over the longer term will be a key driver for sustained traffic recovery to pre-pandemic levels.

Airports continue to bear the brunt of the pain from the pandemic within the transportation sector. Airport management teams are focused on preserving liquidity and minimizing operating expenses, as passenger volumes have shown only modest signs of improvement. Airports with more domestic, regional, or tourist traffic should do better initially than international hubs that rely on long-haul business travel. This view has influenced our positioning.

ENERGY

UNSETTLED OPERATING ENVIRONMENT, BUT OPPORTUNITIES EXIST FOR INTEGRATED COMPANIES.

Second quarter earnings for the sector were mixed. Higher-quality companies with regulated or contracted assets have been roughly in-line with consensus estimates, while others have come in slightly below. Reduced producer activity has forced management teams to maintain a greater level of conservatism for the second half of 2020.

On a positive note, we saw an encouraging recovery of July volumes in an important oil basin, indicating that the market is beginning to reach equilibrium.

Despite the unsettled operating environment, we view large, integrated midstream energy companies as undervalued, given their attractive asset bases and the essential role that they play in the transportation of oil, natural gas, and LNG (liquefied natural gas).

Our portfolio companies provide essential services, generating stable and predictable cash flows, which are generally less sensitive to economic cycles. The portfolio is appropriately positioned based on our views of macroeconomic trends, industry drivers, and geopolitical risks. As always, we will continue to closely monitor global developments through our research and management meetings, incorporating changes to portfolio positioning as warranted.

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