DUFF & PHELPS
INVESTMENT MANAGEMENT CO.

2021 OUTLOOK

GLOBAL LISTED INFRASTRUCTURE

January 2021

> "Market volatility has created increasingly attractive valuations within our infrastructure universe, offering opportunities as we look to the new year."

2020 Recap

The equity markets experienced an astounding year, with a strong start followed by a precipitous drop in March due to the global pandemic, and ending with a very sharp recovery over the final stretch through December. The net result of this volatile market was equity gains of 15.9%, as measured by the MSCI World Index, net. In comparison, global listed infrastructure stocks (as measured by FTSE Developed Core Infrastructure 50/50 Index, net) lost -3.7%. Despite the uncertainty presented by the pandemic, supportive monetary policy, fiscal stimulus packages, and progress on vaccine development buoyed the market's expectations for economic recovery and a return to growth.

The market environment over the past year has been unique for global infrastructure, with the pandemic most directly impacting the Transportation and Energy infrastructure sectors that comprise close to 40% of Duff & Phelps' Global Listed Infrastructure investment universe. Those sectors staged a strong rebound in November on the back of positive vaccine news but could not overcome the negative performance of the rest of the year. The Communications sector posted robust positive returns, as the wireless tower business model proved its resilience. Utility stocks were up moderately, with companies exposed to renewables outperforming. While a second wave of coronavirus cases has recently escalated across Europe and the United States, the approval and rollout of new vaccines from Pfizer and Moderna provides a clearer recovery path for the economy and the sectors in which we invest. Market volatility has created increasingly attractive valuations within our infrastructure universe, offering opportunities as we look to the new year.

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Looking Forward

As we look forward into 2021, below are some of the trends we are observing in each of the infrastructure sectors:

COMMUNICATIONS

Bullish long-term outlook on wireless tower companies

Wireless towers fared reasonably well during 2020, buoyed by the resilience of their business models. However, investors registered concern in recent months, as U.S. activity has slowed due to merger integration at a key customer. We view this slowdown as temporary in nature and expect a reacceleration of growth in the back half of 2021 to accommodate wireless usage and deploy new spectrum.

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.

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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.

Recent political initiatives reinforce our positive thesis. The European Green Deal will endorse additional investment in renewable energy generation, providing investment opportunities for key utilities in Europe. U.S. President-Elect Biden discussed climate change as a key issue throughout the campaign and in his acceptance speech, signaling the new administration may follow Europe's example of backing a transition to renewables.

Utilities have much to offer that we believe is currently being overlooked: strong earnings visibility; momentum from the global clean energy theme; and attractive valuations relative to the broader market.

TRANSPORTATION

As economies emerge from COVID-19 lockdowns, recovery will vary

North American railroads have seen freight volumes nearly recover to pre-pandemic levels, and we anticipate growth in 2021. As volumes increase, operating ratios should also improve due to efficiency measures from precision-scheduled railroading that has been implemented in recent years.

Year-over-year traffic trends for toll roads have been down due to the pandemic; trends have recently dipped due to the second wave of coronavirus cases. Traffic has shown temporary periods of recovery when lockdowns are eased, which leads us to believe a sustained recovery could be possible as the impact of the pandemic diminishes over time. However, potential changes to working and commuting patterns over the longer term will be a key driver for a return to pre-pandemic traffic levels.

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Airports have suffered the most from the pandemic within the transportation sector. Airport management teams continue to focus on preserving liquidity and minimizing operating expenses, as passenger volumes have shown few signs of improvement so far. Airports with more domestic, regional, or tourist traffic should do better initially than international hubs that rely on long-haul business travel. When, or if, business travel recovers to prior levels is a heavily-debated topic by the industry and the investment community. We will continue to follow travel trends closely, considering they could have a significant influence on our positioning in the future.

ENERGY INFRASTRUCTURE

Operating environment showing tentative signs of recovery which provides opportunities for integrated midstream companies

The Midstream Energy sector saw an unprecedented drop in demand due to COVID-related shutdowns early in the year, but it has experienced a sharp rebound since economies around the globe have found ways to reopen. We have seen an encouraging recovery of volumes in an important oil basin, indicating that the market is beginning to reach equilibrium.

A vaccine rollout in 2021 will have positive implications for energy demand, providing momentum for a return to “normal” conditions over 1-2 years.

With signs of improvement in the 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).

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Undoubtedly, the new year will present unforeseen challenges but also opportunities. Based on our current views of macroeconomic trends, industry drivers, and geopolitical risks, we believe our strategy is appropriately positioned heading into 2021. 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 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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FTSE Developed Core Infrastructure 50/50 Index (net) is a free float-adjusted market capitalization weighted index designed to measure the performance of developed market infrastructure companies.
The MSCI World Index (net) is a free float-adjusted market capitalization index designed to measure the equity market performance of global developed markets.

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