2022 OUTLOOK

GLOBAL LISTED INFRASTRUCTURE

January 2022

"We are optimistic the economy will continue a path to recovery..."

2021 Recap

Global equity markets posted strong gains in 2021, sparked by progress in vaccine deployment, supportive monetary policy, and encouraging signs of economic recovery. However, there were some bumps in the road in the latter half of the year with the appearance of the Delta and Omicron variants along with persistent supply-chain bottlenecks and inflation. Inflation continued to rise at a higher and more sustained level than anticipated by the Federal Reserve, causing an increase in both 2022 rate-hike expectations and market volatility.

The energy infrastructure sector staged a strong rebound due to positive vaccine news and an improved outlook for demand as the economy recovers. The communications sector posted healthy returns, as tower customers increased deployment of 5G equipment. North American railroad stocks were the primary driver of performance in the transportation sector as the movement of freight recovered to pre-pandemic levels. Airport and toll-road stocks were mixed by region as travel lagged other areas of the economy due to varying restrictions. After a very strong performance in 2020, European renewables-focused electric utility stocks retraced their gains, resulting in lackluster performance for the utility sector.

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Looking Forward

Investors will likely remain focused on the COVID-19 variants and the potential for rising inflation. We are optimistic the economy will continue a path to recovery in 2022. With respect to inflation, we would highlight that infrastructure companies possess measures of protection via inflation-linked contracts and regulatory resets.

Global Listed Infrastructure Inflation Protection Characteristics

By Subsector

Subsector	Hedge Rating	Comments
US Railroads	+++	– Inflation + pricing escalators – Fuel costs passed through to customers – Higher fuel costs make more competitive vs. trucks
Cellular Towers	+++	– US towers have 3% annual escalators; European towers have escalators tied to inflation
US Utilities	++	– Mostly regulated, with pre-determined ROEs and expected costs – Some lag, but some big costs (fuel) often passed through
Toll Roads	++	– Most toll roads have inflation-linked escalators that reset annually
Energy Infrastructure	++	– Regulated pipelines have built in PPI escalators – Higher commodity prices drive volumes and directly benefit those with commodity exposure
European Utilities	+	– Some regulation and cost pass-through – Higher commodity prices can drive higher generation profits
Airports	+	– Aeronautical fees (40% of revenue) have inflation escalators – Other fees based on retail sales which rise with inflation

Source: Duff & Phelps Investment Management Co.

We see opportunities for the Strategy as market volatility has created attractive valuations across much of the infrastructure universe. Strong secular trends support a steady growth cadence for communications and utility companies, while transportation and midstream energy companies are poised to benefit from improving economies.

In addition, infrastructure companies could benefit in multiple ways from the U.S. Infrastructure and Jobs Act, which is supportive to most sectors in the Strategy, particularly utilities.

As we look forward to 2022, we see the following trends in each of the infrastructure sectors:

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COMMUNICATIONS

Bullish outlook on wireless tower companies

Wireless tower activity levels have increased to an all-time high in the U.S. as the big three wireless operators have begun to upgrade their networks in earnest while a new entrant is feverishly building out a fourth nationwide network. We expect further growth in 2022 as operators deploy new spectrum to accommodate surging wireless data traffic.

In Europe, the independent tower model is accelerating, as more telecommunications carriers are considering selling off their tower portfolios. We expect further M&A in 2022 as the European market follows a roadmap used in the U.S. more than a decade ago. This provides significant opportunity for tower companies to grow through acquisition while they continue to construct new towers to meet organic demand.

The 5G buildout is just beginning and will be a multi-year process, so tower companies' runway for related growth remains quite long and is supportive of current valuations. 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 gains momentum

The decarbonization of the economy creates a win-win for utilities as they improve their environmental profile while also increasing their earnings. The transition to renewable energy provides a visible ramp of growth that extends for more than a decade.

Political initiatives reinforce our positive thesis. Investments from the Next Generation EU recovery funds will hit their stride in 2022 and are focused on the energy transition. In the U.S., the clean-energy portion of the Build Back Better legislation is likely to be addressed by Congress in some fashion regardless of whether this particular legislation is passed, adding to the already attractive economics of wind and solar power generation.

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

TRANSPORTATION

A mixed recovery as COVID-19 variants cloud timing

North American railroads have seen freight volumes nearly recover to pre-pandemic levels and the rails have a bright outlook for 2022. Over the course of the year, we expect global supply chain congestion to moderate, supporting more fluid movement of freight volumes as economies recover. In addition, strong pricing gains coupled with efficiency measures will lead to further margin expansion for the group.

Toll road volumes have shown resiliency with many roads already exceeding pre-pandemic traffic levels. Investor concerns over the Delta and Omicron variants have created attractive valuation opportunities, while we foresee another steady year of operations ahead.

Airports have suffered the most within the transportation sector. We expect passenger traffic to recover as the pandemic dissipates. Leisure travel should continue to improve due to pent-up demand, while business travel is likely to face continued challenges from video conferencing and corporate ESG objectives. Airport stocks will likely remain volatile until there is more certainty around travel trends. There is potential upside to long-term valuations if passenger traffic does return to pre-pandemic levels.

ENERGY INFRASTRUCTURE

Cyclical recovery continues with a return to "normal" conditions

The midstream energy sector should continue to perform well in 2022. Although crude oil, natural gas, and NGL prices are off the highs set several weeks ago, they remain at levels that are broadly supportive of producer economics and should encourage continued modest increases in activity levels. We see demand growth outpacing supply additions in each of these markets as the global economy continues to recover from the effects of the pandemic.

We are encouraged by the newfound capital discipline of midstream energy companies, as the focus has turned to generating free cash flow and returning cash to shareholders. This shift in capital allocation philosophy is likely to appeal to a broader set of investors and support higher company valuations.

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 they play in the transportation of oil, natural gas, and LNG (liquefied natural gas).

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