IMAP Webinar Series

So – How's it going in 2023?

Physical Assets and Infrastructure Update

Shane Hurst – ClearBridge Investments
Mary Power – JANA Investment Advisers
Moderated by
Brad Creighton – North

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Advice in Action topics

Earn tomorrow's clients

Did the managed account improve my business?

What does a sustainable HNW client offer look like?

How to talk to your clients about ESG investing

Dealing with NFP clients

Practice management and business strategy

What do Licensees have to do to continue to offer their own portfolios?

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How to ask a Question

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So – How's it going in 2023?

Shane Hurst
ClearBridge Investments

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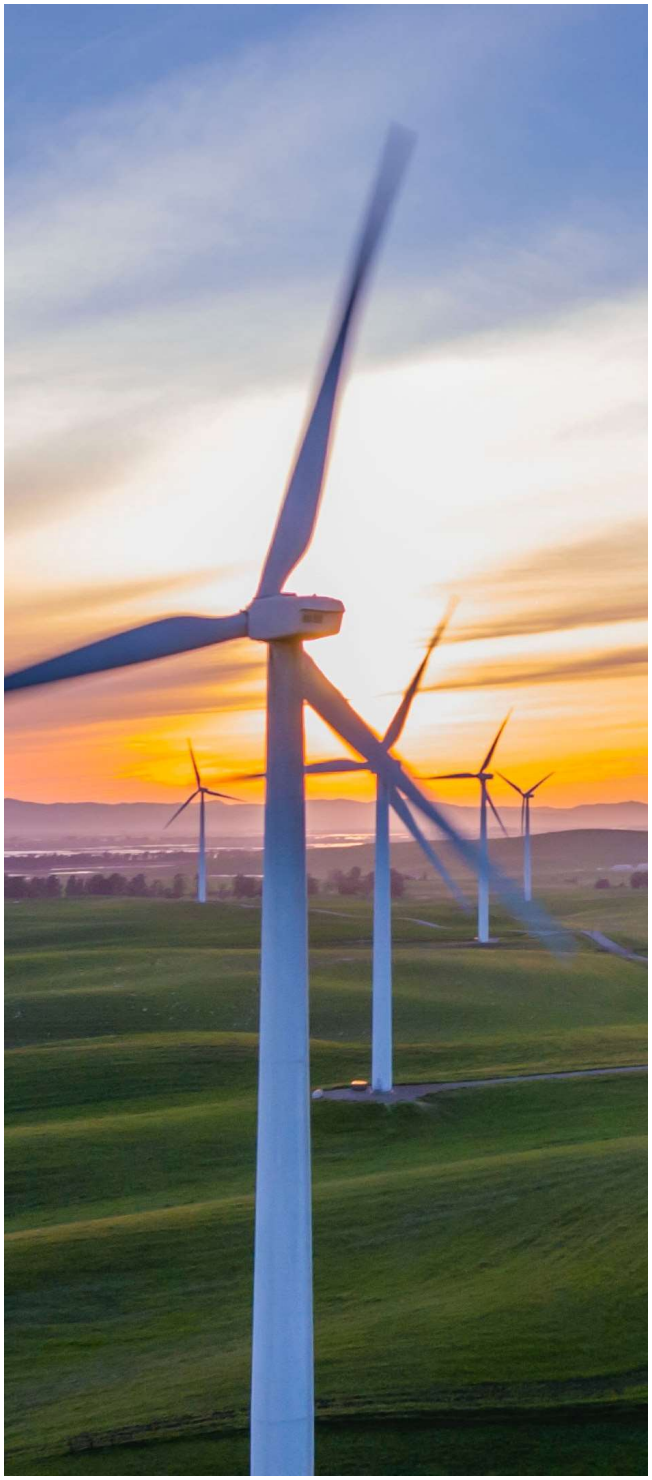


How to Deliver Investors Comfort Through Infrastructure's Resilience?

31 March 2023

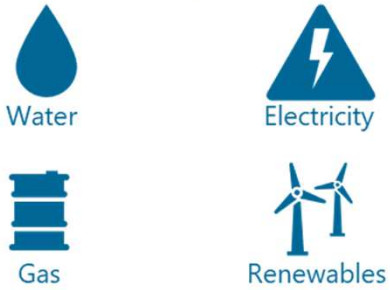
ClearBridge Investments

Defining Our Focused Infrastructure Assets

Regulated and Contracted Utilities

- Regulator determines the revenues that a company should earn on their assets.
- Demand for these assets are steady.
- Such mechanism leads to a relatively stable cash flow profile over time.
- Price increases are often linked to inflation and long-term valuations are relatively immune to changes in bond yields.

Examples:



Regulated and Contracted Utilities = defensive higher income

User-Pays Assets

- Pricing is generally set by contracts, however, volume and revenue is determined by how many people use their assets.
- These physical assets move people, goods and services throughout the economy.
- Therefore, as an economy grows, develops and prospers, demand for these assets also typically grows.

Examples:

User-Pays Assets = growth, lower income

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Source: ClearBridge. For illustrative purposes only.

Why Listed Infrastructure?

Listed infrastructure has the potential for:

Significant Growth

Secular growth story

Sovereign fiscal constraints

Competition for capital underpins allowed returns

Infrastructure driver and outcome of economic activity

Stable Cash Flows/ Dividends

Cash flows underpinned by regulation or long-term contracts

Inflation Hedge

Revenues are often linked to inflation

Diversification

Low correlation to most major asset classes

Attractive upside and downside beta

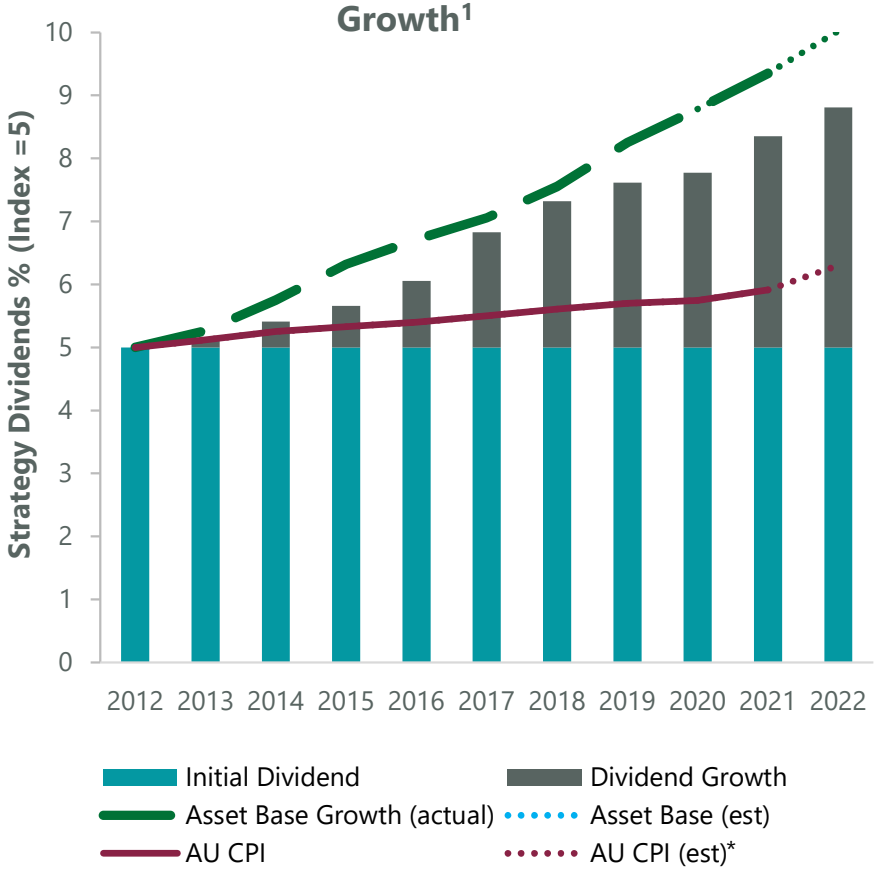
ClearBridge Investments

Source: ClearBridge. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situations or needs of investors.

Focus on Asset Base Provides Income/Return Stability

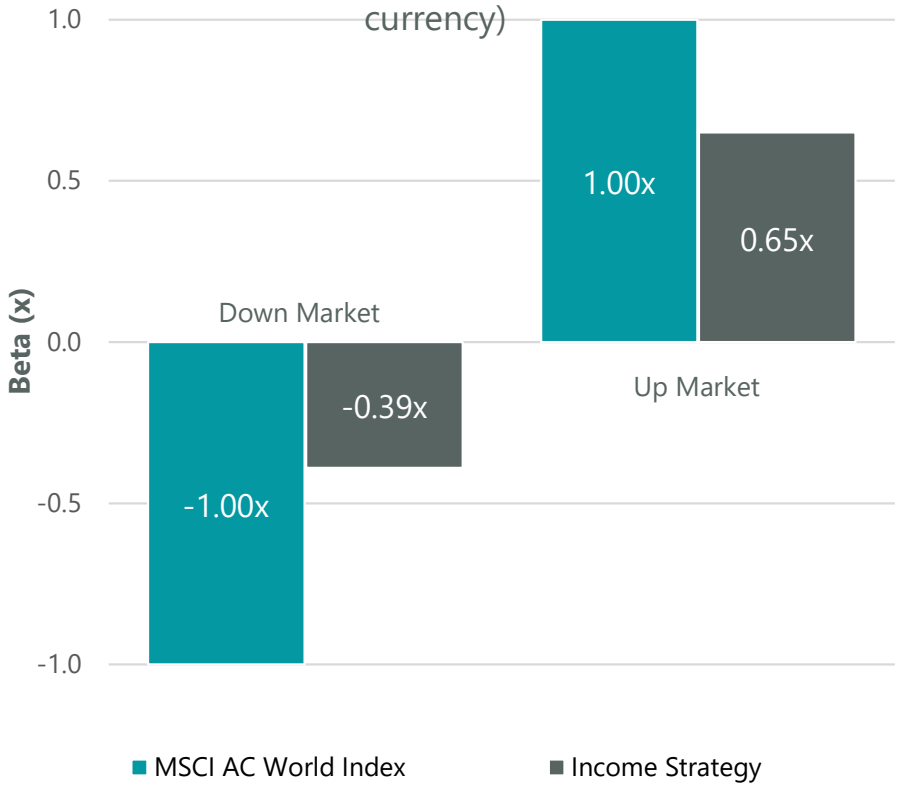
Growing DPS and Lower Beta to Global Equities

Income Strategy, Portfolio Dividend Growth[1]



Income Strategy Beta to Global Equities[2]

(monthly returns since inception, local currency)



[1] Internal Calculations as at 31 December 2022. Infrastructure Income Strategy.
*OECD estimates used for this calculation.
[2] Global Equities – MSCI AC World, Gross, Local, FactSet Research Systems (Index Code – MSCI:892400) since 31/10/2010. Calculations as at 31 December 2022. Infrastructure Income Strategy Rep Mandate, Local, since inception 31/10/2010.
Past performance is not a reliable indicator of future performance.

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Themes and Opportunities Ahead

Listed Infrastructure is a Secular Growth Story

Decarbonisation

- Clean Energy: contracted renewables
- Decarbonisation: deployment of renewables, retirement of hydrocarbon emitting generation, strengthening of networks and a move towards cleaner fuel sources such as hydrogen - Global utility exposure
- Beginning and facilitating a transition – selected energy infrastructure

Fracturing of Global Economy

- Move from Just in Time to Just in Case supply
- Necessitates realignment of supply chains, new or expanded trade routes requiring supporting infrastructure
- Localised (or regional) factories require additional energy

Unique Inflation Hedge

- Pricing mechanism
- Market Structure
- Demand / Volume Volatility

5G Evolution

- Significant carrier capex required to improve and "densify" cellular networks
- Listed tower companies' primary beneficiary

Listed & Unlisted Valuation Divide

- US$300bn of unlisted "dry powder" paying a premium for listed assets, showing the attractiveness of listed infrastructure

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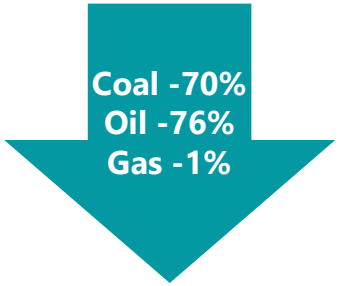
Decarbonisation

What Needs to be Achieved in the 2020s to Reach Net Zero by 2050

Energy Demand & Intensity

GDP,+37% Energy,-9% Intensity,-35%

Change in use in Electric Generation



Power Sector Spending

US$0.8tn to US$2.5tn p.a.

Poles and Wires Renewables

Wind & Solar ⇧ 5.5x

- Solar PV capacity up from ~600GW to ~5000GW
- Renewables 27% to 61% of use (TWh%)

Buildings

- All new buildings in all regions "zero carbon ready"
- 20% of all existing buildings retro-fitted to "zero carbon ready" standard (approx. 30m buildings per year)
- 80-90% of lighting/appliances sold are equivalent to the most efficient today

Transport

60% of all cars sold annually are EVs

Change behaviours:

- Reduce flights less than 1 hour
- Reduce car trips less than 3km
- Reduce traffic speeds 7km/h

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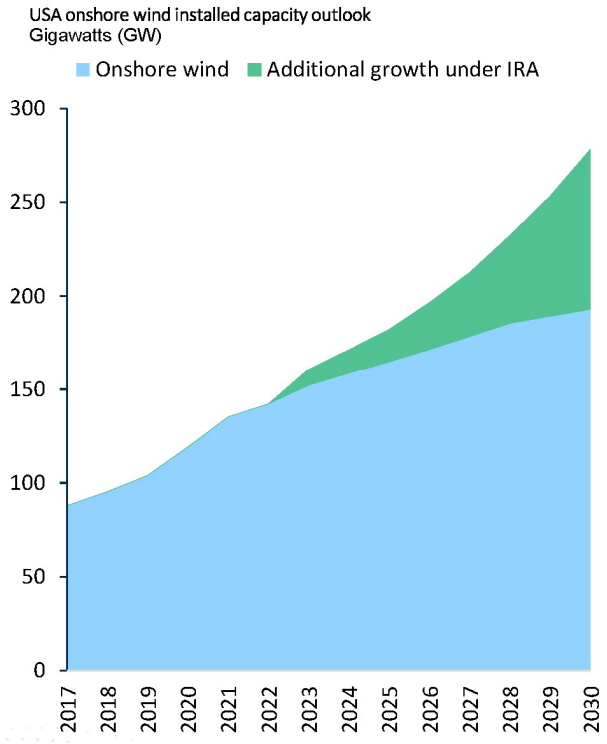
Source: ClearBridge calculations, International Energy Agency Net Zero by 2050, A Roadmap for the Global Energy Sector, data 2019-2030.

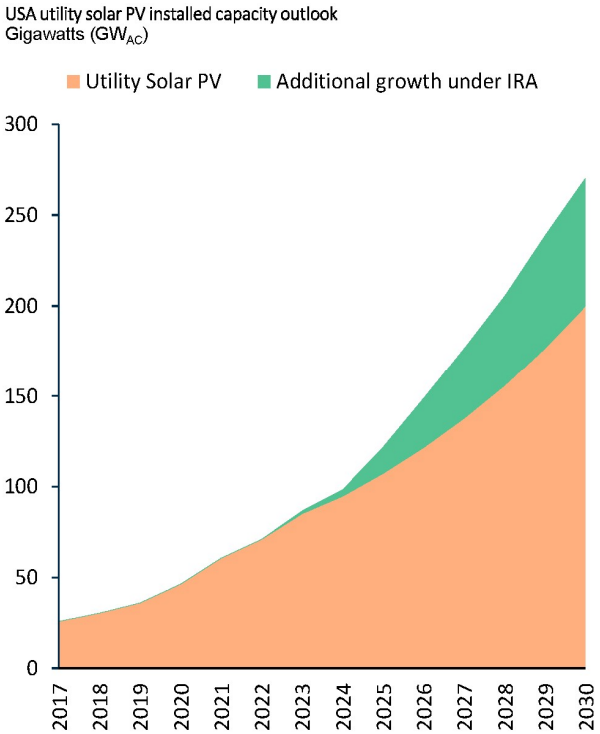
Fracturing Global Economies – Inflation Reduction Act

Localising Supply Chains

- Since the IRA was announced, 20 new clean energy manufacturing facilities or expansions announced, adding 13 gigawatts of new clean energy capacity
- $270 billion in additional investment expected by 2030 due to greater incentives
- 70.3 GW of Solar Capacity and 85.2 GW of Onshore Wind Capacity could be added by 2030
- 300% increase in U.S. solar module manufacturing capacity.
- EU Commission has responded by announcing the EU Green Industrial plan, to stop investment leaving Europe.

All This Benefits Utility & Infrastructure Assets





Source: Rystad Energy research and analysis; Rystad Energy RenewableCube.

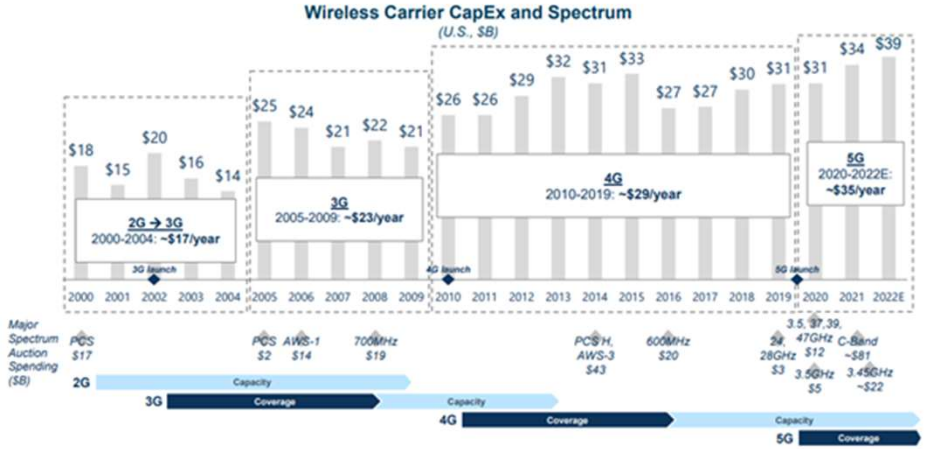
Data Growth is Explosive

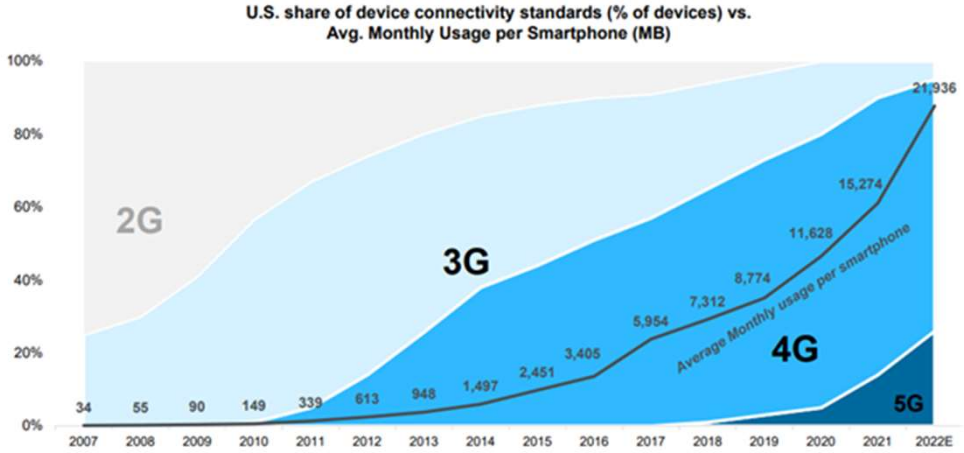
5G Leading the Charge

- Carriers recently spent >$80bn on new
- Densification is an ongoing investment driver.
- New spectrum has less propagation than existing 4G capabilities, meaning more sites are needed to cover the same area.
- Analysts see mobile data usage as potentially quadrupling from 2021-2025 meaning more capacity is also required.
- MLA agreements mean the tower companies have good visibility on site rental demand, with more than 2/3 of leasing already locked in.

AMT's Guided Domestic Organic Tenant Billings Growth

	2021 Actual		2022 Outlook		'23E-'27E Avg.	
	Reported	Ex. Sprint[2]	Reported	Ex. Sprint[2]	Reported	Ex. Sprint[2]
Target	~3%	~4%	~1%	~5%	≥5%	≥6%





Sources: Cisco VNI, 2006-2017; Forbes: 2017-2022 Figures provided by Ericsson Mobility Report June 2022, Altman Solon Research & Analysis, CTIA, BAML Wireless Matrix.

(2) Sprint churn excluded in normalisation reflects both churn as part of MLA with T-Mobile US, Inc. (the "T-Mobile MLA") and churn that is expected to occur outside of the T-Mobile MLA.

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Resilience of Assets Drives Infrastructure Returns

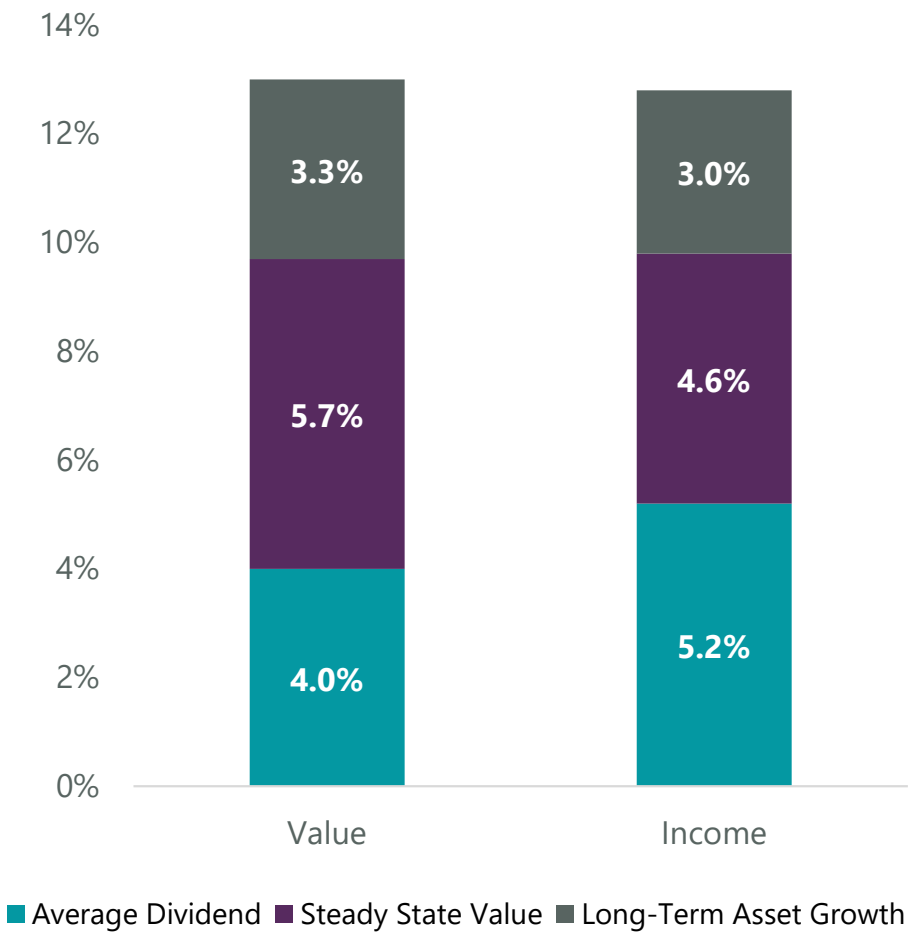
Attractive Valuations

Value IRR	Income IRR
13.0%	**12.8%**

Drivers of Returns:

1. Stable and growing dividends
   - Value dividend of 3.4% (growing at 5.9%)
   - Income dividend of 4.9% (growing at 5.1%)
2. Base assets that are essential services:
   - Utilities → underpinned by regulation User-Pays
   - User-Pays → underpinned by concessions or contracts
3. Long term growth that is driven by strong thematics:
   - Decarbonisation
   - Fracturing of Global Economies
   - 5G Evolution

5 Year IRR Return Breakdown



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Internal calculations as at 31 March 2023.

Conclusion

- Definition is critical - frameworks need to be regulatory in nature or based on long-term concessional contracts providing visibility over the company's ability to generate cash flow
- Essential service infrastructure provides stability of earnings due to limited changes to demand during economic weakness
- Implemented or proposed public policy across major global regions will continue to provide structural growth for the asset class
- Infrastructure remains at the forefront of decarbonisation. Other tailwinds include Fracturing of Global Economy, the 5G evolution and the valuation divide between listed and unlisted infrastructure
- The internal rate of return is largely underpinned by stable dividends and asset base.

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Performance: Portfolio return source: Internal. Performance shown is net of fees. Periods longer than one year are annualised.

Market Cap: Source: FactSet.

Sector Allocations: Source: FactSet. Sector allocations are subject to change. Sector breakdowns as defined by CIL.

Characteristics: Source: FactSet, CIL. All values are weighted average as of the date shown. Portfolio characteristics are subject to change. Forward estimates are based on Manager research and forecasts. Forecasts are inherently limited and should not be relied upon as an indication of future results.

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Attribution Analysis: Source: FactSet. Attribution returns are gross of fees and/or expenses and may differ from the actual reported returns. The attribution figures are based on the portfolio's holdings and do not reflect fees and/or expenses of the portfolio. These figures are for analytical purposes only and do not represent the portfolio's average total return. The sector allocations are subject to change.

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So – How's it going in 2023?

Mary Power
JANA Investment Advisers

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DEPTH WITH DIFFERENCE

IMAP Property Webinar

30 June 2023

Mary Power

Principal Consultant, Head of Property Research

Recent Headlines

Crunch time for office tower valuations

Why bad news could be good news for office property

The reckoning for office property appears to be coming, with valuations potentially set to fall more than 20 per cent. But a worse outcome is priced into some REITs.

Forget remote work, office property has a more basic worry

Despite a 20-year high in office vacancy rates and falling rents, the supply of new floor space is still rising as demand is getting weaker. Morgan Stanley says rents may be stuck for years.

The office property reckoning will be drawn out

The latest cut in office property valuations looks modest compared to recent deals and the increase in bond yields. Investors appear to agree.

Sources: Australian Financial Review

Property Performance Summary

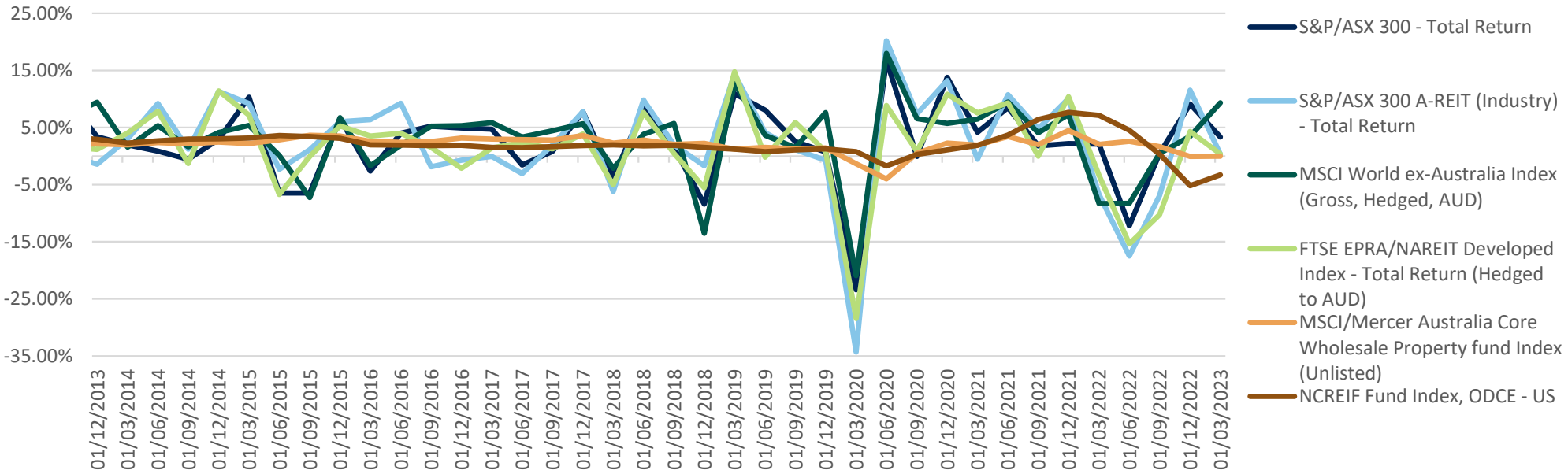
Property Performance - Latest Data	3 Month %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
MSCI/Mercer Australia Core Wholesale PFI ^ (31 May 2023)	**-0.2**	**3.4**	**7.1**	**5.6**	**8.2**
MSCI/Mercer Australia Core Wholesale – All Office	-0.3	2.0	6.9	8.2	10.5
MSCI/Mercer Australia Core Wholesale – All Retail	-0.6	3.7	4.0	-0.6	4.4
MSCI/Mercer Australia Core Wholesale – All Industrial	0.6	5.6	16.2	14.8	12.6
S&P/ASX 300 AREITs Index **(23 June 2023)**	-0.0	2.2	5.7	3.0	7.9
FTSE EPRA/NAREIT Index, Hedged in $A, Gross (Global REIT) **(23 June 2023)**	3.3	-8.6	2.3	-0.4	5.0

Sector	Income Return	Capital Growth	12 Month Total Return (%)
All Property	**4.1**	**-0.6**	**3.4**
All Office	3.8	-1.7	2.0
All Retail	4.7	-1.0	3.7
All Industrial	3.6	1.9	5.6
All Diversified	4.1	-0.2	3.9

*^ **Unlisted Property Fund Index** - 10-year data includes prior Index methodology pre-2006 and is as at 31 May 2023.*

***Note:** Income and Capital return do not add up to Total Return as MSCI/Mercer calculates each strand separately.*

Index Performance Comparison



- The above chart tracks the quarterly performance of the Listed REIT indices alongside the Unlisted property index over a period of 10 years. The broader listed equities indices are included for comparative purposes.
- **The above highlights the low correlation of Unlisted Australian and US property to Listed REITs (orange and brown lines).**
- The Listed REITs can outperform or underperform Unlisted property over shorter time periods, however Unlisted property exhibits lower volatility and has provided downside protection at times of equity market dislocation.
- REITs have significantly underperformed relative to broader equities in 2023 due to the rising interest rate environment, as REITs historically underperform in these environments given their higher gearing relative to the broader market.

Property Performance to 31 March 2023	Qtr	1Y	3Y	5Y	10Y
	%	%	% p.a.	% p.a.	% p.a.
MSCI/Mercer Australia Core Wholesale Property Fund Index (Unlisted)	**-0.0**	**4.2**	**5.7**	**5.7**	**8.3**
NCREIF Fund Index, ODCE (US Unlisted)	**-3.3**	**3.9**	**7.5**	**6.6**	**8.5**
S&P/ASX 300 AREITs Index	0.3	-14.0	14.2	5.2	8.0
S&P/ASX 300 Index	3.3	-0.6	16.6	8.6	10.9
FTSE EPRA/NAREIT Index, Hedged in $A, Gross (Global REITs)	0.4	-20.5	6.6	1.6	4.7
MSCI World ex-Australia Index, Hedged in $A, Gross	7.3	-7.1	15.6	8.2	10.7

Source: JANA / FactSet/ MSCI/ Bloomberg

Unlisted Property vs. Listed REITs

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Unlisted Property – Characteristics

- ✓ Stable secure income stream;
- ✓ Low volatility of returns and low correlation to other asset classes;
- ✓ Natural hedge against inflation;
- ✓ High quality assets with strong ESG credentials and a focus on total return being income and capital growth;
- ✓ Appraisal based quarterly valuations based on market evidence;
- ✓ High level of information transparency;
- ✓ Investors highly disciplined and governance structures relating to investor control is relatively high;
- ✓ Gearing levels at circa 16%;
- ✗ Liquidity less than listed property, often 18 months to 2 years best endeavours or liquidity windows (7-10 years).

Listed Property – Characteristics

- ✓ Daily liquidity and efficient deployment of capital;
- ✓ Stable yield and access to a wide range of assets types;
- ✓ Only requires a small outlay to be invested;
- ✓ Micro-level diversification to regions and sectors;
- ✓ Proxy for unlisted over the very long term;
- ✗ Highly correlated to the broader equities markets and sensitive to interest rate rises;
- ✗ Concentrated AREIT Index with two stocks being Goodman Group (25%) and Scentre Group (11%) dominating, 36% of the Index;
- ✗ Limited governance control and can be diluted through rights issues;
- ✗ Gearing at circa 30%;
- ✗ High embedded fees and costs.

Structural Themes Impacting Real Estate

Demographics & Urbanisation

- There is an undersupply of housing globally.
- Housing affordability, as it relates to residential ownership and rental accommodation, is under enormous pressure.
- Inequality and cost of living a recognised social problem requiring government intervention and partnerships.
- Ageing populations. The old age dependency ratio, which represents the proportion of the population that is over 65 to those of working age population (20-65) is projected to be over 30% for most developed countries by 2027 and over 50% by 2075.

Technology & Innovation

- Technological advancement and the rise in e-commerce –as accelerated demand for the industrial sector and data centres.
- Industrial dominance and retail disruption has been underpinned by ecommerce trends.
- Healthcare, technology, and research driven by government healthcare funding, onshoring medical research and the production of pharmaceuticals has supported demand for life science properties.
- Growth in Big Data and Artificial Intelligence may influence some property types, such as datacentres.

Sustainability & Decarbonisation

- Global focus on Net Zero and decarbonisation has shifted toward carbon positive.
- Switching to renewable energy networks to power buildings has increased in prevalence.
- Creating and commercialising the climate solutions that will be fundamental to a low carbon economy.
- Energy transition to a low carbon economy and the impacts as related to reducing embodied and operational carbon.

Infrastructure

- Government infrastructure investment and enhancements to communication and transportation are improving connectivity between assets in the supply chain.
- Australia's e-commerce penetration rate is forecast to rise from 14% to 29% by 2026, moving from 20th to 5th in the world.
- Rising shipping costs, supply chain stress expected to linger, supporting onshoring.

Globalisation

- Technological improvements and connectivity is a major theme.
- Prominence of global cities being primary nodes in a global economic network. Growth is the result of economic activities in between the countries and regions due to globalisation.
- Geopolitical risk has increased in recent years, increasing uncertainty. This can have direct implications for investment markets and offshore strategies, which are typically weaker in the face of increased perceived geopolitical risk.

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HNW Whitepaper

HNW Masterclass
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What do Licensees have to do to continue to offer their own portfolios?

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