Real Assets

We would like to share with you our review and outlook for investments in real assets as of June 30, 2018, including global real estate securities, commodities, natural resource equities and global infrastructure stocks.

Investment Review

The U.S. economy remained on solid footing in the second quarter. Helped by the lowest unemployment rate in years, consumers felt confident to continue spending. Companies benefited from significant tax reform that lowered their corporate tax rate, allowing for investing in growth, stock buybacks and employee bonuses. Meanwhile, as temperatures picked up, industrial production and construction increased.

Still, investors grew increasingly concerned that the economic cycle may have peaked just as geopolitical concerns started boiling over. And after a long absence, inflation has returned, albeit modestly, and the Federal Reserve continued to raise interest rates. President Trump proceeded with tariffs that seem increasingly likely to ignite a trade war. Against this mixed backdrop, real assets classes had positive performance as a group, both in absolute terms and compared with the broad equity market.

Index Performance (A$)

	Linked Index[1]
Q2 2018	6.63%
YTD	6.19%
1 Year	11.71%
3 Year	4.21%
5 Year	6.66%

(1) Linked Index: The blended benchmark consists of 30% FTSE EPRA/NAREIT Developed Real Estate Index NR, 30% Bloomberg Commodity Index TR, 20% S&P Global Natural Resources Index NR, 12.5% ICE BofAML Global Broad Market Corporate Index 1-3 Yr Index TR, and 7.5% gold spot price from 1/31/2012 through 9/30/2013. Thereafter, it consists of 27.5% FTSE EPRA/NAREIT Developed Real Estate Index NR, 27.5% Bloomberg Commodity Index TR, 15% Dow Jones Brookfield Global Infrastructure Index TR, 15% S&P Global Natural Resources Index NR, 10% ICE BofAML US Corporate 1-3 Yr Index TR, and 5% gold spot price.

Data quoted represents past performance, which is no guarantee of future results.

This information is not representative of any Cohen & Steers account and no such account will seek to replicate an index. You cannot invest directly in an index and index performance does not reflect the deduction of fees, expenses or taxes.

Periods greater than 12 months are annualized.

Sector Highlights

Global Real Estate Securities

- The global real estate market, as represented by the FTSE EPRA/NAREIT Developed Real Estate Index, had a 5.1% total return in the second quarter (in U.S. dollars, net of dividend withholding taxes).
- Performance varied by region, with the U.S. outperforming Europe and Asia Pacific.
- The period saw a continuation of real estate M&A activity in the U.S. and elsewhere, a trend that has highlighted the potential for value opportunities in the asset class.
- In the U.K., most real estate stocks had gains, although there was a wide dispersion of returns amid ongoing economic and Brexit uncertainty.
- In Germany, apartment landlord Deutsche Wohnen reported strong cash flows driven by same-property rental growth, with indications for continued upward rent momentum.
- Australia was the top performer in the Asia Pacific region, aided in part as some investors moved money from mall owner Westfield (which was acquired by France's Unibail-Rodamco and de-listed at the end of May) to other property companies listed in the country.

Commodities

- The Bloomberg Commodity Index had a return of 0.4% in U.S. dollars.
- Brent crude and West Texas Intermediate climbed on strong global demand and reduced inventories.
- Gold declined in the face of the strong U.S. dollar and materially reduced speculative open interest.
- Natural gas demand remained strong but prices were capped by a surge in U.S. production.
- Soybeans and corn declined due to favorable U.S. growing conditions and the prospect of a 25% tariff on U.S. agriculture exports to China.

Natural Resource Equities

- Natural resource equities had a total return of 5.3%, as measured by the S&P Global Natural Resource Equities Index (net of dividend withholding taxes).

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- Energy performed strongly as it caught up to the oil price strength and the positive global growth theme that has already propelled other areas of the stock market.
- Agribusiness outperformed, led by fertilizers and agricultural chemicals, which gained more than 10%.
- Metals & mining had solid absolute performance. Diversified and precious metals producers both had solid gains, although steel companies declined. Among the underlying commodities, aluminum outperformed on concerns that U.S. sanctions against Russia would result in reduced supply.

Global Listed Infrastructure

- Global infrastructure stocks had a total return of 4.2%, as measured by the Dow Jones Brookfield Global Infrastructure Index.
- Midstream energy equities had a strong recovery in the second quarter, as earnings generally beat expectations and fundamentals continued to improve sector wide due to high, stable energy prices and rising production volumes.
- Tower companies underperformed after T-Mobile and Sprint announced their third attempt to merge. Consolidation of wireless carriers in the U.S. could reduce tenant demand for towers in the medium to long term.
- Marine ports lagged, as the sector tends to be more closely associated with trade, during a period in which trade concerns increased.
- Airports underperformed due to weakness in Italy and Mexico. Investors soured on Mexico's prospects amid concerns ahead of upcoming elections, renegotiating trade agreements with the U.S., and currency risk.

Investment Outlook

Asset Allocation

We made several changes to our target sleeves in the quarter. We increased infrastructure to an overweight, from a modest underweight. The space's broad underperformance in recent months has materially increased its relative value proposition, in our view. We further increased the degree of our underweight in global real estate stocks. The group's attractiveness has declined relative to the more inflation-sensitive real assets (e.g., natural resources and infrastructure).

In natural resources, we reduced the size of the overweight as recent significant outperformance has reduced its value opportunity, although we believe the asset class is still fundamentally attractive, especially in the mining and energy spaces. Our overweight for short-duration credit was slightly reduced. Although credit spreads are tight and expected to widen, this positioning was driven by risk management considerations. In commodities, we maintain a neutral view, as the positive impacts of supply-side rebalancing and still-solid global demand are being partially offset by concerns about the impact of the ongoing tariff skirmish with China. We added to gold, but remain underweight.

We believe the landscape remains favorable for real assets and the global economy as a whole. However, tight labor markets and subsequent wage growth could cause the market to adjust its inflation expectations higher through the year, potentially leading to a faster pace of rate hikes and further market volatility in the second half of the year. Historically, listed real assets have tended to outperform both stocks and bonds during periods of unexpected inflation, should such a period develop.

Global Real Estate Securities

Over the past five years, global real estate securities have experienced generally strong cash flow growth but have widely trailed the stock market's performance. As a result, REITs today are trading at earnings multiples near the low end of their five-year range while broad equity valuations are at cycle highs, representing attractive relative value, in our view.

Although volatility in real estate stocks may continue in the short run as investors seem focused on interest rates, bond yields are rising because of stronger growth and signs of higher inflation, both in the U.S. and abroad. We believe commercial real estate should continue to see improving operating fundamentals in most global markets amid solid economic growth, steady job creation, reasonable new supply levels, and monetary conditions that should remain relatively accommodative even as stimulus is gradually withdrawn. We therefore generally favor pro-cyclical real estate sectors over the more interest-rate-sensitive sectors.

Commodities

We expect sound global economic growth to persist, with improving employment and rising personal incomes spurring consumer spending and business investment alike. Such conditions should prove broadly favorable for commodity demand, in our opinion.

We believe the overall impact of trade tariffs on commodities will be somewhat neutral. More than 50% of our investment universe is not materially impacted by either the U.S. or China trade tariff announcements. From what has been imposed

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and/or announced so far, the impact has been limited to the base metals, agriculture, and livestock sectors. However, if the situation escalates and a broader risk-off sentiment were to plague the global equity markets, energy commodities could suffer, while gold could outperform given its appeal as a safe-haven asset. We are closely monitoring the situation and will adjust our allocations accordingly.

Natural Resource Equities

Within the agribusiness sector, we believe the out-of-index packaged foods & meats and construction machinery subsectors appear to offer the best growth prospects. Fertilizer companies, on the other hand, face weak supply/demand fundamentals that may suppress earnings in the foreseeable future.

We have dialed back our weighting in the energy sector. While the group's longer-term prospects remain attractive in our view, we made this adjustment on a tactical basis given the recent significant rise in share prices.

We are positive on the metals and mining sector, with valuations still reasonable, in our view. Similarly, we find steel and aluminum companies attractive on continued capacity reductions in China. We remain underweight precious-metals miners, based on our expectation that rising interest rates may make it harder for stocks in the sector to outperform.

Global Infrastructure Stocks

We believe critical pipeline replacement projects across the U.S. should drive significant growth for water utilities, with the consolidation of the largely municipally owned sector a further tailwind. In our view, U.K. water utilities have underperformed due to investors pricing in the risk inherent in the upcoming regulatory-rate review process.

U.S. and European tower owners, in our view, are well-positioned to benefit from strong long-term secular demand growth for wireless data services and the adoption of 5G, small cells and other technologies to handle the increasing data usage. The sector's valuations remain attractive relative to our growth expectations.

The outlook for freight railways in 2018 and beyond continues to be attractive, as stronger-than-anticipated year-over-year freight volumes are driving upward revenue guidance. This, combined with the companies' significant improvements in operational efficiency—and declining capital investments—could materially increase free-cash-flow generation over the next several years.

The growth in North American energy production volumes is driving a positive shift in the fundamental cycle for midstream energy companies, translating into continued cash-flow growth. While competitive conditions remain challenging, more midstream energy companies are taking steps to reduce downside risk by strengthening balance sheets, increasing distribution coverage ratios and being less reliant on capital markets to fund their growth. Our favorable view on the sector is based on these themes combined with generally attractive valuations.

We generally maintain a cautious stance toward electric utilities, due to their modest growth prospects, company-specific regulatory issues and vulnerability to rising interest rates.

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Sector Diversification

	Q2 2018
Commodities	**27.0%**
Energy	9.1%
Agriculture	8.3%
Industrial Metals	5.4%
Precious Metals	4.5%
Livestock	-0.2%
Global REITs	**22.2%**
Diversified	6.5%
Residential	4.2%
Retail	3.6%
Office	3.3%
Industrial	1.3%
Self Storage	1.2%
Health Care	1.1%
Hotel	1.0%
Global Infrastructure	**18.8%**
Midstream- C Corp	5.6%
Tower	3.5%
Regulated Electric	2.4%
Toll Roads	2.1%
Gas Distribution	1.1%
Water	1.1%
Rails	1.1%
Airports	1.0%
Integrated Electric	0.7%
Midstream- MLP	0.3%
Global Natural Resource Equities	**16.2%**
Agribusiness	6.0%
Energy	6.0%
Metals & Mining	4.1%
Short Duration Credit	**11.0%**
USD	11.0%
Gold	**3.9%**
Gold	3.9%
Cash	**0.8%**
Cash	0.8%

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ICE BofAML Global Broad Market Corporate Index, 1–3 Years includes corporate debt with at least $100 million face value outstanding, with a maturity between 1 and 3 years.

The Bloomberg Commodity Index Total Return is a broadly diversified index that tracks the commodity markets through commodity futures contracts. The index is made up of exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity.

The FTSE EPRA/NAREIT Developed Real Estate Index - net is an unmanaged market-capitalization-weighted total-return index, which consists of publicly traded equity REITs and listed property companies from developed markets and is net of dividend withholding taxes.

The S&P Global Natural Resources Index - net includes the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements and is net of dividend withholding taxes.

Gold is represented by the gold spot price in U.S. dollars per Troy ounce.

The Dow Jones Brookfield Global Infrastructure Index is 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.

The ICE BofAML 1-3 Year US Corporate Index tracks the performance of US dollar-denominated investment-grade corporate debt publicly issued in the US domestic market, with a remaining term to final maturity of less than 3 years.

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