

# Cohen & Steers Global Infrastructure Securities Strategy

JUNE 30, 2010

INVESTMENT COMMENTARY

*We would like to share with you our review of the global infrastructure securities market for the quarter ended June 30, 2010. The UBS Global 50/50 Infrastructure & Utilities Index had a total return of -9.8% (net of dividend withholding taxes) in the quarter. Year to date, the index had a total return of -10.4%.*

## INVESTMENT REVIEW

Global infrastructure securities posted a negative total return for the second quarter as concerns about sovereign debt levels in several southern European countries and the weakening global growth outlook contributed to poor investor sentiment.

Following a positive close to the first quarter, global infrastructure companies gave up their gains in April as downgrades of the debt of Greece (to below investment grade), Spain and Portugal weighed on the capital markets. A €750 billion (\$955 billion) rescue package for Greece and other countries announced at the beginning of May generated initial enthusiasm, but failed to sustain investor confidence against worries that it would prolong, rather than fix, the problem. June saw a rally in global infrastructure share prices as most equity groups rebounded from oversold levels, and the euro, which had hit a four-year low against the U.S. dollar earlier in the month, showed signs of stabilizing.

The infrastructure asset class was especially hard hit by the sovereign debt turmoil, given the high concentration of listed companies domiciled in countries at the epicenter of the crisis—notably Spain and Portugal. The toll roads subsector (which had a total return of -14.2% during the quarter),<sup>1</sup> and to a lesser degree, electric companies (-7.6%) were among the most affected. Several toll road companies that are headquartered in Spain, Portugal and Italy, however, generate a substantial portion of their cash flows from assets in other regions.

The electric utilities subsector was pulled down by its European constituents, which face a rising level of political risk and regulatory intervention. In Spain, for example, the government cancelled a scheduled rate increase and announced a full review of the electric regulatory framework. In Germany, a proposed nuclear tax could result in significant reductions in earnings to several major utilities.

The marine ports subsector (+0.6%) generated the highest total return during the period, although there was wide dispersion in performance among the constituent companies. Two operators that benefited from the strong global demand for oil early in the period accounted for much of the subsector's outperformance.

Communications infrastructure companies (-0.8%) received a lift from U.S.-based tower companies, which benefited from continued strong data demand by wireless users. The subsector had sold off at the start of the period on the perception of relatively weak credit profiles, and on concerns about delays in wireless spending by carriers.

The railways subsector (-2.6%) was a relative outperformer for the period as investors were attracted to the perceived defensiveness of the three Japan-based operators and the country's equity market. The companies lagged in June's mild rebound, but remain ahead of the other infrastructure subgroups for the year to date.

The euro's decline against the U.S. dollar during the quarter was detrimental to U.S. dollar-based portfolios, while the yen's rise against the dollar was beneficial.

## INVESTMENT OUTLOOK

As the pace of the global economic recovery slows, we have increased our weighting in defensive subsectors, namely regulated utilities, and pared our allocation to those that are more economically sensitive, notably marine ports and toll roads. We are seeing improvement in industrial power demand in the United States, but in some European countries, utilities face continued political and regulatory headwinds. Overall, we are generally underweight Europe, particularly those countries with the most significant fiscal concerns.

## PERFORMANCE BY SECTOR

	Q210	YTD
Marine Ports	0.6%	9.6%
Railways	-2.6%	8.7%
Communications Infrs.	-0.8%	4.2%
Gas Distribution	-1.5%	1.4%
Gas Pipeline	-4.4%	0.3%
Airports	-8.3%	-2.1%
Water	-12.5%	-3.5%
Diversified Infrs	-7.6%	-7.6%
Electric	-7.6%	-9.4%
Toll Roads	-14.2%	-16.5%

Past performance does not guarantee future results. Returns are based on sector classifications chosen by Cohen & Steers for the constituents comprising the UBS Global 50/50 Infrastructure & Utilities Index. The UBS Global 50/50 Infrastructure and Utility Index tracks a 50% exposure to the global developed market utilities sector and a 50% exposure to global developed market infrastructure sector. 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.

(1) Sector returns as measured by the UBS Global 50/50 Infrastructure & Utilities Index.

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We continue to monitor the impact of the oil spill in the Gulf of Mexico and the ramifications for all companies involved in the energy value chain. Gas pipeline companies could suffer if the backlash against resource extraction grows. To date, there has been minimal impact to the subsector.

The dislocation in the aftermath of the sovereign debt crisis in Europe may help grow the listed infrastructure investment opportunity. Government balance sheets are stretched, and infrastructure privatization provides a revenue option that is preferable to increasing taxes. Greece, Portugal and the United Kingdom have recently announced privatizations as part of their balance sheet improvement plans, and we believe there will be increasing opportunities for our companies to benefit from these efforts.

***Past performance is no guarantee of future results.** The performance information in the preceding commentary does not reflect the performance of any fund, product or account managed or serviced by Cohen & Steers. The views and opinions in the preceding commentary are as of the date of publication and are subject to change. There is no guarantee that any market forecast set forth in this presentation will be realized. This material should not be relied upon as investment advice, does not constitute a recommendation to buy or sell a security or other investment and is not intended to predict or depict performance of any investment.*