

Cohen & Steers Global Infrastructure Securities Strategy

We would like to share with you our review of the global infrastructure securities market as of December 31, 2011. For the year, the UBS Global 50/50 Infrastructure & Utilities Index had a total return of -0.4% (net of dividend withholding taxes).

Investment Review

Infrastructure securities' defensive characteristics were on display in 2011, with the sector outperforming the broader markets: the UBS Global 50/50 Infrastructure and Utilities Index had a net return of -0.4%, compared with -5.5% for the MSCI World Index.

The year opened amid investor optimism that the economic expansion that began in 2009 would continue—a sentiment that was soon challenged. Unrest in North Africa and the Middle East drove up oil prices, while Japan's earthquake, tsunami and nuclear crisis roiled financial markets in general and the listed infrastructure universe in particular (Japanese infrastructure companies accounted for about 16% of the UBS Global 50/50 Infrastructure and Utilities Index).

Markets weakened in the second quarter amid persistent concerns about the European debt crisis, ongoing turbulence in the Middle East and the lingering effects of the Fukushima disaster.

Concerns about Europe dominated markets

The summer months were extremely volatile, as the European Union failed to reach an effective long-term solution to its sovereign debt crisis, growth in China slowed and U.S. economic data weakened. It wasn't until October that global equity markets managed to rally, once European officials agreed to leverage the European Financial Stability Fund to roughly €1 trillion and persuaded Greece's private bondholders to accept a 50% write-down. In the United States, fears of a recession eased on better economic news.

The rally faltered when worries about Europe resurfaced. As it related to infrastructure, austerity needs amplified what was already the sector's biggest risk—regulatory and political intervention. Broader sentiment improved when major central banks announced a coordinated effort to lower currency swap rates, providing much-needed liquidity to European banks. That, together with encouraging U.S. economic data and news that China cut its reserve requirement ratio, lifted markets.

(1) Subsector returns are in local currencies as measured by the UBS Global 50/50 Infrastructure & Utilities Index.

Corporate restructuring increased

Following 2010, which was a year of growth and recovery, companies turned to mergers and acquisitions to help sustain growth. Gas pipeline companies (which had a total return of +42.1%⁽¹⁾), the top-performing subsector, had a particularly busy year. In February, the Williams Companies announced it would spin off its exploration & production division and concentrate on its midstream and pipeline businesses. In the second quarter, El Paso Corp. announced it would do the same, but subsequently accepted an attractive takeover bid from Kinder Morgan. Several suitors bid for pipeline operator Southern Union; and Enbridge advanced on news that it bought a 50% stake in the Seaway crude oil pipeline.

Performance by Sector

Sector	Q4 2011	YTD
Gas Pipelines	22.0%	42.1%
Regulated Electric	6.2%	18.4%
Towers	13.2%	10.0%
Gas Distribution	2.3%	1.9%
Marine Ports	7.5%	0.5%
Toll Roads	6.0%	-0.7%
Rails	0.4%	-1.2%
Airports	-1.0%	-1.6%
Diversified	9.3%	-2.8%
Satellites	-2.3%	-5.1%
Integrated Electric	0.2%	-13.5%
Water	-7.6%	-26.2%

Past performance does not guarantee future results. Returns are in local currency and 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.

Defensive sectors led the way in a volatile year

Electric utilities (regulated +18.4%, integrated -13.5%) initially faced headwinds created by the Fukushima disaster and often-related political and regulatory risks (highlighted by Germany's decision to suspend operations at seven older nuclear plants with a goal of phasing out all nuclear-generated power by 2022). But by summer, they had regained momentum—particularly regulated utilities, as investors valued their stable cash flows given increasing market volatility and low U.S. government bond yields.

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Fourth-quarter weakness in European utilities (many of which are domiciled in the troubled peripheral countries) was offset by gains from large cap U.S. companies, with the exception of PG&E, which fell on news of further investigation into its liability regarding the 2010 San Bruno gas pipeline explosion.

Tower companies (+10.0%) benefited from the strong outlook for wireless services and cash flows that were less vulnerable to economic slowdowns. The rails sector of the index (-1.2%), which consists entirely of Japanese companies, mounted a faster-than-expected recovery in passenger volumes following the Fukushima disaster.

Trade-related sectors faced stiff headwinds

Airports (-1.6%), marine ports (+0.5%) and toll roads (-0.7%) were restrained by the slowing global economy. Toll road operators faced additional obstacles; many are located in southern Europe, while others have modest exposure to cyclical construction businesses. And Chinese toll road operators tumbled on news that the government might lower tolls as a way to contain inflation. Water services companies (-26.2%), a small component of the index, declined on company-specific news, a slowdown in the cyclical waste business and shrinking margins in the municipal water business.

Investment Outlook

We are entering 2012 with a positive outlook for infrastructure securities based on better-than-expected U.S. economic data and credit conditions in Europe that show some signs of stabilizing. Even so, we recognize that it will take time for the global economy to achieve sustained growth. We will continue to monitor global monetary policies, having already seen the beginning of the next easing cycle.

Despite the fact that the sector still carries meaningful political and regulatory risk, we believe infrastructure companies should perform well in 2012. As one of the most defensive asset classes in an uncertain, low-interest-rate environment, regulated utilities should outperform if market volatility and economic uncertainty persist. Tower companies are also well positioned for a strong year; wireless data demand is growing and in response, wireless carriers continue to spend significant capital to upgrade their networks. Satellite companies have been among the best performers in the European infrastructure space, given their stable, contracted cash flows and the growing demand for higher bandwidth satellite services.

We plan to maintain our overweight in defensive subsectors and underweight in the more economically sensitive toll roads, airports and marine ports subsectors. Regionally, we are cautious toward Europe, but have modestly narrowed our underweight in the region based on improving valuations.

Past performance is no guarantee of future results. *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.*