# Brookfield Real Assets Monthly

## KEY TAKEAWAYS

- As investors prepare portfolios for 2024, this past year offers lessons regarding the importance of active management, the value to be found in real assets, and more.
- Our positioning overall remains defensive, as we expect global growth will continue to slow and macro uncertainty will persist into the new year.
- Within our portfolios, we continue to focus on high-quality companies across infrastructure and real estate equities and to favor infrastructure debt as well as higher-quality real asset debt.

## INSIGHTS

### LESSONS FROM 2023

We believe 2023 offers lessons for investors preparing their portfolios for the year ahead.

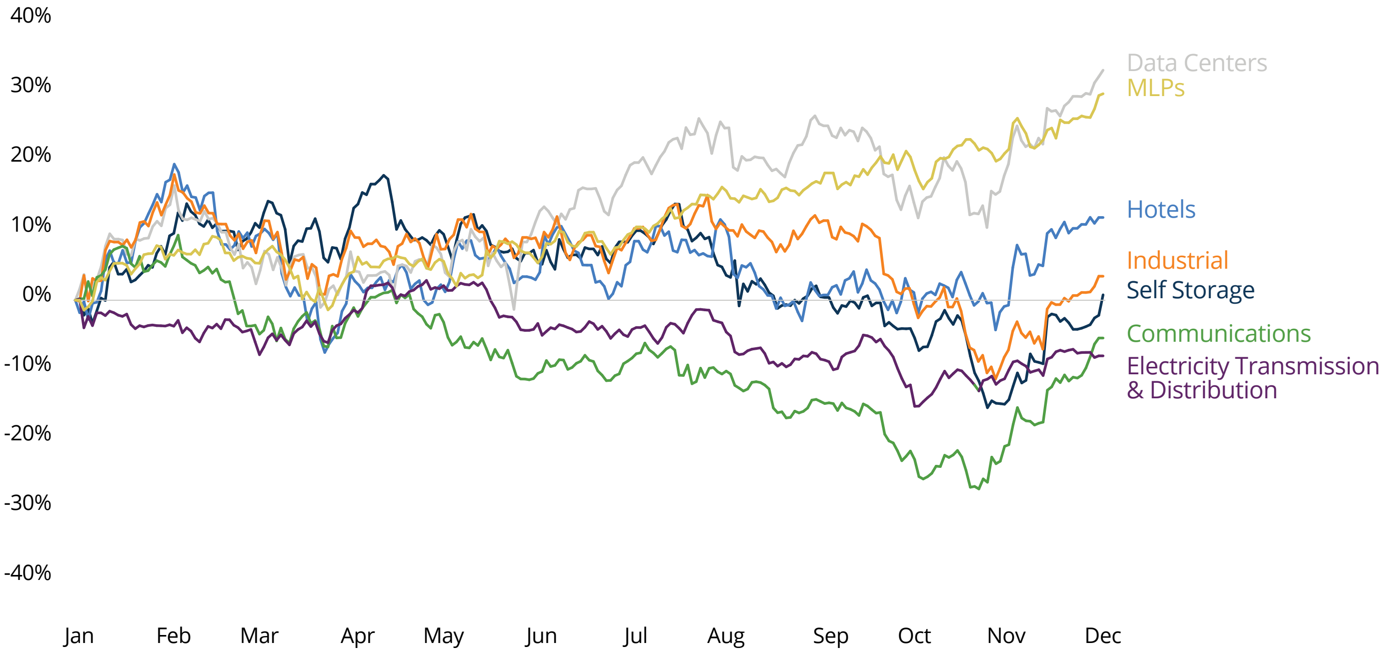
**Divergent performance across real assets testifies to the importance of active management.** Broad market stock indexes have performed well in 2023, driven largely by a handful of mega-cap names in the technology and consumer discretionary sectors. In contrast, performance within, and across, real assets has been more varied, with market leadership shifting throughout the year.

Within real estate, assets more exposed to higher costs of capital and shifting customer demands tried to find a bottom. There were, however, pockets of meaningful outperformance. Data centers, for example, garnered favorable sentiment amid optimism about artificial intelligence. Within infrastructure, rising interest rates weighed on long-duration sectors like communications, whereas master limited partnerships (MLPs) outperformed, supported by strong fundamentals and healthy balance sheets. These divergences make active management very appealing, creating potential opportunities for active managers to capitalize on mispricing dislocations and generate excess returns for investors.

**Mergers and acquisition (M&A) activity in 2023 shows there is value to be found in real asset companies.** Within infrastructure, recent take-private transactions highlight disconnects between implied valuations in the public market and realized transaction multiples in the private market. Within renewables and sustainable infrastructure, we've seen full companies being taken private at a 45% premium over public prices, or individual assets being bought at up to 2x the implied value of the assets in the public market. We believe such transactions demonstrate the attractiveness of quality, essential infrastructure assets. Meanwhile, despite a significant decline in real estate transactions this year, buyers remained active, acquiring high-quality assets in subsectors with strong fundamentals.

## PERFORMANCE DISPERSION ACROSS, AND WITHIN, REAL ASSET SECTORS IN 2023 HIGHLIGHTS THE POTENTIAL BENEFITS OF ACTIVE MANAGEMENT

**2023 Year-to-Date Total Returns**




As of November 30, 2023. Source: Bloomberg, Brookfield Public Securities Group. Data centers, hotels, industrial and self-storage property types are referenced by the FTSE Nareit US Real Estate Index Series. MLPs reflect the Alerian MLP Index. Communications and electricity, transmission & distribution are referenced by the respective subsets of the Dow Jones Brookfield Global Infrastructure Index. Brookfield has no direct role in the day-to-day management of the Brookfield Infrastructure Index. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

**In a highly uncertain environment where fiscal policy has been a bigger economic driver than expected, it's important to actively focus on quality.** 2023 was shaped by macroeconomic and geopolitical uncertainty. Ultimately, however, the U.S. economy strengthened, despite the most aggressive monetary tightening cycle in recent decades. We attribute this surprising economic resilience at least partly to pro-cyclical U.S. fiscal policy, including stimulus designed to spur investment in infrastructure and renewable energy. This unusual combination of stimulative fiscal policy and restrictive monetary policy is making the Federal Reserve's (Fed) job harder, and the future impacts of the interplay of those competing forces are uncertain.

Bears remain committed to the notion of a pending "hard landing" in the coming year, citing persistently tight financial conditions, slower growth and confidence that the Fed has gained the upper hand on higher prices. Bulls, meanwhile, expect a "soft landing," focusing on improving inflation metrics, the resiliency of the housing market, a tight labor market and consumer strength. With this macro uncertainty likely to persist into the new year, we believe it's key to work with an active manager that focuses on quality companies with healthy balance sheets, strong pricing power, and stable and growing cash flows.

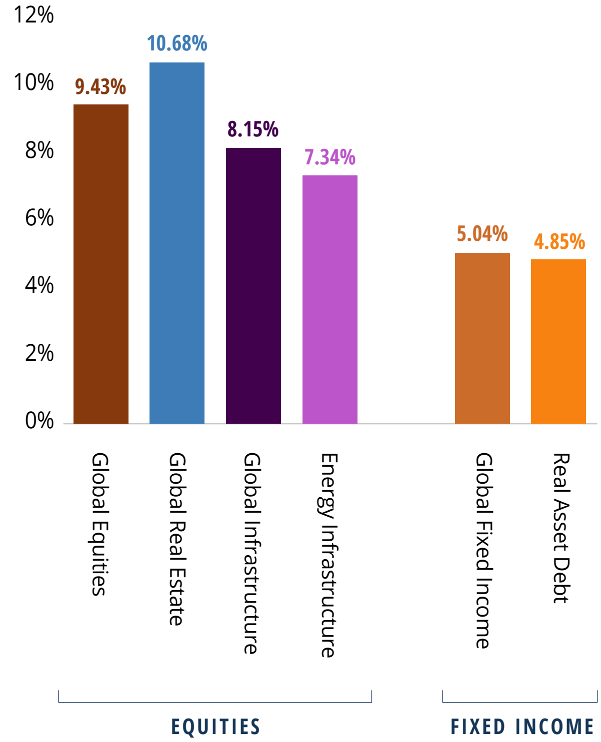
# Real Assets Month in Review

## REAL ASSETS

- Global equities rallied in November, as expectations of Federal Reserve rate cuts fueled risk sentiment. The MSCI World Index rose 9.43% during the month, with Europe, North America and Asia Pacific up 9.89%, 9.47% and 8.03%, respectively. The S&P 500 Index gained 9.13%, its biggest monthly advance since July 2022.
- The 10-year U.S. Treasury yield fell to 4.33% from 4.93% at the end of October, as the narrative that the Fed is done hiking rates gained steam amid slowing inflation and softening economic data, resulting in the strongest month for the U.S. bond market since the 1980s. West Texas Intermediate Crude Oil fell to $75.96 from $81.02 at the end of October, while the Bloomberg Commodity Index lost 2.25%.
- We expect growth to slow through the remainder of 2023 and into the new year. While inflation has trended lower, we believe central banks will maintain their tighter monetary policy stance as they seek to ensure that inflation doesn't reaccelerate. Overall, our positioning remains defensive within our portfolio, with an underweight to real asset equities and an overweight to real asset debt. We also hold a modest allocation to commodities in order to enhance diversification and reduce equity beta amid escalating geopolitical risks and macro uncertainty.
- Within equities, we continue to favor infrastructure over real estate due to infrastructure's potential outperformance in down markets and tighter inflation linkage. Within infrastructure, we are most constructive on utilities for their defensive characteristics and current attractive valuations. We also see tailwinds for energy midstream equities, which we believe should benefit from the global push for energy security. Within real estate, although valuations appear attractive, lingering concerns around financing and broad negative sentiment around commercial real estate keep us cautious. Finally, elevated Treasury yields continue to make real asset debt attractive on a risk-adjusted basis, particularly the higher-quality part of the market where we believe default risks remain low.

### PERFORMANCE AT A GLANCE

**November 2023 Total Returns**



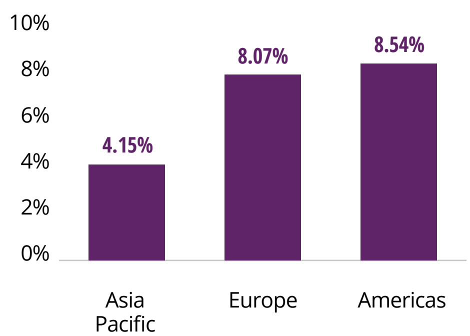

As of November 30, 2023. Sources: Bloomberg, Brookfield PSG, U.S. Department of Commerce. See disclosures for full index representations and definitions. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

## GLOBAL INFRASTRUCTURE

- Global infrastructure equities rallied in November, with the FTSE Global Core Infrastructure 50/50 Index gaining more than 8%. The Alerian Midstream Energy Index advanced more than 7% during the month.
- Communications infrastructure stocks were the standout performer, returning nearly 20% during the month. Sentiment within the group was boosted by a compression of interest rates, as well as an activist investor campaign aimed at boosting returns at a U.S. tower company.
- Private infrastructure investors continue to deploy capital and acquire high-quality assets. We think recent premiums paid highlight the staying power of high-quality infrastructure assets and investor demand for stable and growing cash flows. We also think they can be indicative of the value that may exist within listed infrastructure equities, whose underlying assets may fetch premiums from private buyers. Within our portfolios, we remain focused on taking advantage of entry points to increase exposure to many high-quality companies and to actively mitigate unintended factor risk.

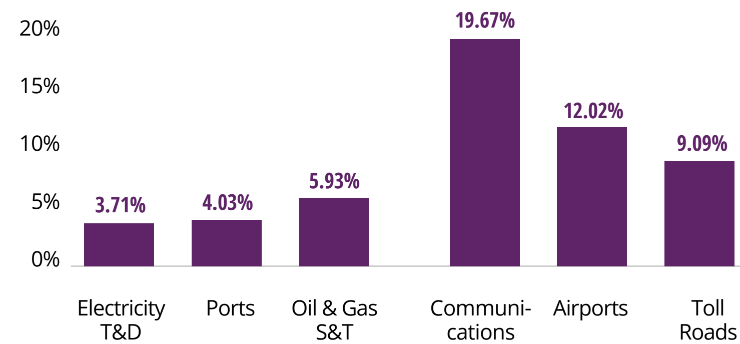
### PERFORMANCE BY GEOGRAPHY

**November 2023 Total Returns**




### PERFORMANCE BY SECTOR

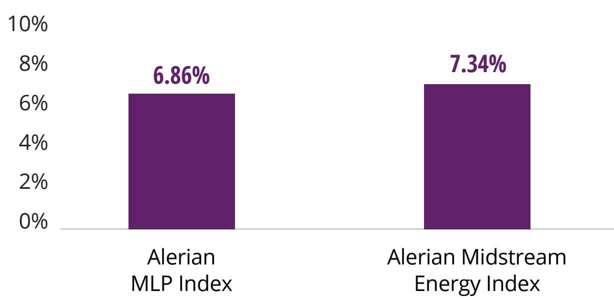
**Top Three Laggards** **Top Three Leaders**




As of November 30, 2023. Source: Bloomberg. Referenced by the respective subsets of the Dow Jones Brookfield Global Infrastructure Index. Brookfield has no direct role in the day-to-day management of the Brookfield Infrastructure Index. T&D stands for transmission and distribution. S&T refers to storage and transportation. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

### MIDSTREAM PERFORMANCE

**November 2023 Total Returns**



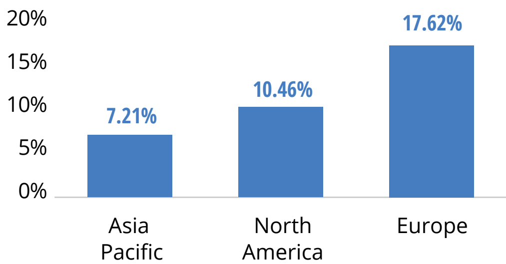

As of November 30, 2023. Source: Bloomberg. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

# GLOBAL REAL ESTATE

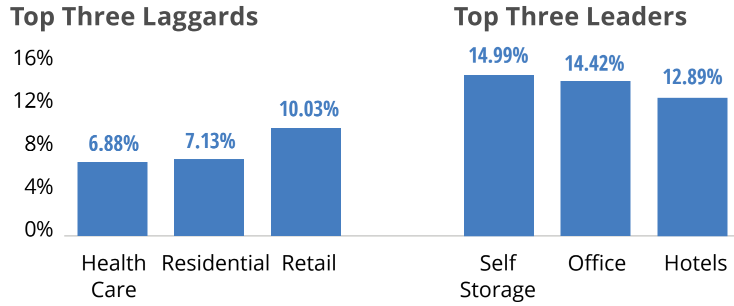
- Global real estate securities staged a significant rally in November. The FTSE EPRA Nareit Developed Index rose more than 10%, largely driven by the meaningful decline in 10-Year U.S. Treasury yields. Gains were positive across all regions, but they were most pronounced in Europe.
- A risk-on, high-beta rally pushed nearly all stocks in the Nareit index higher during the month. As a result, U.S. property type returns were positive across the board. November returns were strongest among property types that had lagged the most through October, namely self storage and office.
- As we look to the new year, a slowing of new supply amid elevated construction costs should help to keep supply and demand balanced to support continued growth. However, we continue to see bifurcation across property type fundamentals. Some sectors that were big winners during and coming out of the pandemic are experiencing normalization. We anticipate positive same-store net operating income (NOI) growth for all sectors, although we expect there will be a wider-than-normal range of growth rates across sectors. We foresee the strongest growth rates for industrial, health care and single-family rental, and the weakest growth rates among net lease, office and self storage. Despite the broad rally across the universe, we remain focused on what we believe are the highest-quality companies, with the strongest balance sheets and the best prospects for earnings growth.

## PERFORMANCE BY GEOGRAPHY

**November 2023 Total Returns**




## PERFORMANCE BY U.S. PROPERTY TYPE



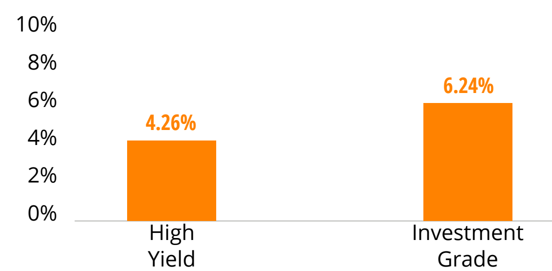

As of November 30, 2023. Source: Bloomberg. Referenced by the U.S. property types measured by the FTSE Nareit US Real Estate Index Series. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

# REAL ASSET DEBT

- Fixed-income performance was strong in November, as interest rates fell from October highs and credit spreads tightened. Broad investment grade rose 5.64%, as measured by the ICE BofA U.S. Corporate Index, driven by longer-duration bonds. Broad high yield returned 4.55%, as measured by the ICE BofA U.S. High Yield Index. Real asset sectors outperformed within investment grade on longer duration, while real asset high yield performed generally in line with broad high yield.
- Default activity remained elevated in November, with an additional eight defaults and distressed exchanges during the month in the high-yield corporate bond and leveraged loan markets, bringing the year-to-date totals to $82.1 billion.[1] Our analysis indicates just 19.6% of this default activity has been within real asset sectors, despite those sectors accounting for approximately 47% of the ICE BofA U.S. High Yield Index debt outstanding.
- We believe issuers within real asset sectors may be better positioned for a longer period of high interest rates because of their large amount of fixed rate debt and relatively lower maturities over the next five years. In contrast, we expect borrowers in alternative credit markets concentrated in floating rate instruments, such as leveraged loans and private credit, will likely face continued pressures from higher rates. We expect a moderate slowdown in the economy in the coming quarters and believe that now could be a favorable time to utilize high yield focused on real asset sectors as a way to de-risk fixed-income portfolios. While credit spreads within real asset sectors remain near their long-term averages, we believe these sectors are relatively attractive after adjusting for projected credit losses during a potentially elevated default rate cycle. Within our portfolio, we continue to favor infrastructure debt as well as higher-quality real asset debt.

## REAL ASSET DEBT PERFORMANCE

**November 2023 Total Returns**




As of November 30, 2023. Source: Bloomberg. Real asset high yield represented by the ICE BofA Real Asset USD High Yield Custom Index, and real asset investment grade represented by the ICE BofA Real Asset USD Investment Grade Custom Index. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

## MORE PSG INSIGHTS

- The Whole Picture: Building Portfolios With Both Public and Private Infrastructure
- Reasons to Consider Renewables and Sustainable Infrastructure Equities
- The Truth About Higher-For-Longer Rates and Listed Real Assets

### ENDNOTE

[1] Source: J.P.Morgan.

### RISK DISCLOSURE

**All investing involves risk. The value of an investment will fluctuate over time, and an investor may gain or lose money, or the entire investment. Real assets include real estate securities, infrastructure securities and natural resources securities.**

**Investments in real estate-related instruments may be affected by economic, legal or environmental factors that affect property values, rents or occupancies of real estate.**

**Infrastructure companies may be subject to a variety of factors that may adversely affect their business, including high interest costs, high leverage, regulation costs, economic slowdown, surplus capacity, increased competition, lack of fuel availability and energy conservation policies.**

**The market value of natural resources securities may be affected by numerous factors, including events occurring in nature, inflationary pressures and international politics.**

**Diversification does not guarantee a profit or protect against loss.**

**For the November 2023 total-returns data, global equities are represented by the MSCI World Index, global real estate by the FTSE EPRA Nareit Developed Index, global infrastructure by the FTSE Global Core Infrastructure 50/50 Index, energy infrastructure by the Alerian Midstream Energy Index, global fixed income by the Bloomberg Global Aggregate Index, and real asset debt by the ICE BofA USD Real Asset High Yield & Corporate Custom Index. Real asset high yield is represented by the ICE BofA Real Asset USD High Yield Custom Index, and real asset investment grade is represented by the ICE BofA Real Asset USD Investment Grade Custom Index.**

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#### INDEX DEFINITIONS

The Alerian Midstream Energy Index is a broad-based, capped, float-adjusted, capitalization-weighted index of North American energy infrastructure companies.

The Alerian MLP Index is the leading gauge of energy infrastructure master limited partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The Bloomberg Commodity Index is a broadly diversified index that tracks the commodities markets through commodity futures contracts.

The Bloomberg Energy Subindex is a commodity group subindex of the Bloomberg Commodity Index. It is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of the underlying commodity futures price movements.

The Bloomberg Global Aggregate Index tracks the performance of investment-grade public debt issued in the major domestic and eurobond markets, including global bonds.

The Dow Jones Brookfield Global Infrastructure Composite Index is calculated and maintained by S&P Dow Jones Indexes and comprises infrastructure companies with at least 70 of their annual cash flows derived from owning and operating infrastructure assets, including MLPs. Data presented in this report reflect performance and characteristics of the index and not those of a Brookfield fund or composite. Brookfield is not involved in the management of the Dow Jones Brookfield Global Infrastructure Composite Index.

The Dow Jones Brookfield Global Infrastructure Index is calculated and maintained by S&P Dow Jones Indices and comprises infrastructure companies with at least 70 of their annual cash flows derived from owning and operating infrastructure assets, excluding master limited partnerships, or MLPs. Brookfield has no direct role in the day-to-day management of any Brookfield-branded indexes.

The FTSE EPRA Nareit Developed Index is an unmanaged market-capitalization-weighted total-return index that consists of publicly traded equity REITs and listed property companies from developed markets.

The FTSE Global Core Infrastructure 50/50 Index gives participants an industry-defined interpretation of infrastructure and adjusts the exposure to certain infrastructure subsectors. The constituent weights are adjusted as part of the semi-annual review according to three broad industry sectors: 50 utilities; 30 transportation, including capping of 7.5 for railroads/railways; and a 20 mix of other sectors, including pipelines, satellites and telecommunication towers. Company weights within each group are adjusted in proportion to their investable market capitalization.

The FTSE Nareit U.S. Real Estate Index Series tracks the performance of the U.S. REIT industry at both an industry-wide level and on a sector-by-sector basis.

The ICE BofA Real Asset USD Corporate and High Yield Custom Index is a custom index blend of sectors of the ICE BofA U.S. High Yield Index (70) and the ICE BofA U.S. Corporate Index (30) that correspond to equity sectors in Brookfield's real asset universe. Such real asset-related sectors include Cable, Infrastructure Services, Oil and Gas Transmission & Distribution (T&D), Telecommunications, Transportation, Utilities, Agriculture, Timber, Basic Materials, Energy Exploration & Production, Metals & Mining, Real Estate, Real Estate Ownership & Development and REITs. The ICE BofA U.S. High Yield Index tracks the performance of U.S. dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. The ICE BofA U.S. Corporate Index tracks the performance of U.S. dollar-denominated investment-grade corporate debt publicly issued in the U.S. domestic market.

The ICE BofA Real Asset USD High Yield Custom Index is a custom index that tracks the performance of sectors of the ICE BofA U.S. High Yield Index that correspond to equity sectors in Brookfield's real asset universe. Such real asset-related sectors include Cable, Infrastructure Services, Oil and Gas Transmission & Distribution (T&D), Telecommunications, Transportation, Utilities, Agriculture, Timber, Basic Materials, Energy Exploration & Production, Metals & Mining, Real Estate, Real Estate Ownership & Development and REITs.

The ICE BofA Real Asset USD Investment Grade Custom Index is a custom index that tracks the performance of sectors of the ICE BofA U.S. Corporate Index that correspond to equity sectors in Brookfield's real asset universe. Such real asset-related sectors include Cable, Infrastructure Services, Oil and Gas Transmission & Distribution (T&D), Telecommunications, Transportation, Utilities, Agriculture, Timber, Basic Materials, Energy Exploration & Production, Metals & Mining, Real Estate, Real Estate Ownership & Development and REITs.

The MSCI World Index is a free-float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets.

The S&P 500 Index is an equity index of 500 widely held large-capitalization U.S. companies.

The U.S. 10-Year Treasury Note is a debt obligation issued by the United States government that matures in 10 years and pays interest at a fixed rate once every six months and pays the face value to the holder at maturity.

West Texas Intermediate crude oil is a crude oil stream produced in Texas and southern Oklahoma that serves as a reference, or "marker," for pricing a number of other crude streams, and it is traded in the domestic spot market at Cushing, Oklahoma.

#### DEFINITIONS

Bear: An investor who is bearish, i.e., who expects a market where the economy is slowing and equities are decreasing in value.

Beta: Is a statistical measure that compares the volatility of returns of a specific stock or portfolio to those of the market as a whole. An equity beta of 1 implies as volatile as the stock market while a beta above 1 reflects higher volatility than the market.

Bull: An investor who is bullish, i.e., who expects a market where the economy is in good shape and equities are increasing in value.

## CONTACT US

brookfield.com | publicsecurities.enquiries@brookfield.com

ID-1111