Brookfield

Real Assets Monthly

PUBLIC SECURITIES GROUP

DECEMBER 2024

Key Takeaways

- We believe real asset sectors are poised to perform well in 2025, supported by several key themes as near-term tailwinds align with long-term megatrends set to drive real asset demand.
- Our diversified real asset portfolios reflect a preference for real asset equities over real asset debt. Within equities, we favor more defensive assets, namely utilities and core infrastructure.
- Within real estate, we see valuation dispersions across property types and regions creating opportunities to create value via buying and selling.

Insights

Themes Supporting Listed Real Assets in 2025

Listed real assets' strong absolute returns this year highlight the importance of allocating to public exposures alongside private ones. Looking forward, we believe real asset sectors are poised to perform well in 2025, supported by several key themes as near-term tailwinds align with the "Three Ds" (deglobalization, digitalization and decarbonization)—megatrends that we expect will drive real asset demand for decades.

A more normalized macro backdrop. In 2024, inflation has eased in most regions and central banks globally have been lowering rates. In the U.S., inflation continues to slowly come off the boil. While costs of living remain elevated vs. several years ago, the rate of inflation is trending downward. If that continues, we're likely to have a more certain and stable interest rate environment in 2025, which should support real asset sectors.

A disconnect between real asset equity valuations and growth. Market observers are raising warning flags about elevated price-to-earnings ratios for the equity market overall. While there may be pockets of overvalued sectors, we think stock prices for listed real assets, in many cases, undervalue the earnings growth support coming from the "Three Ds." These structural growth trends continue to gain momentum, with trillions of dollars expected to be invested annually in real asset sectors for years to come. In our view, these dislocations show the potential runway for real asset sector valuations from here.

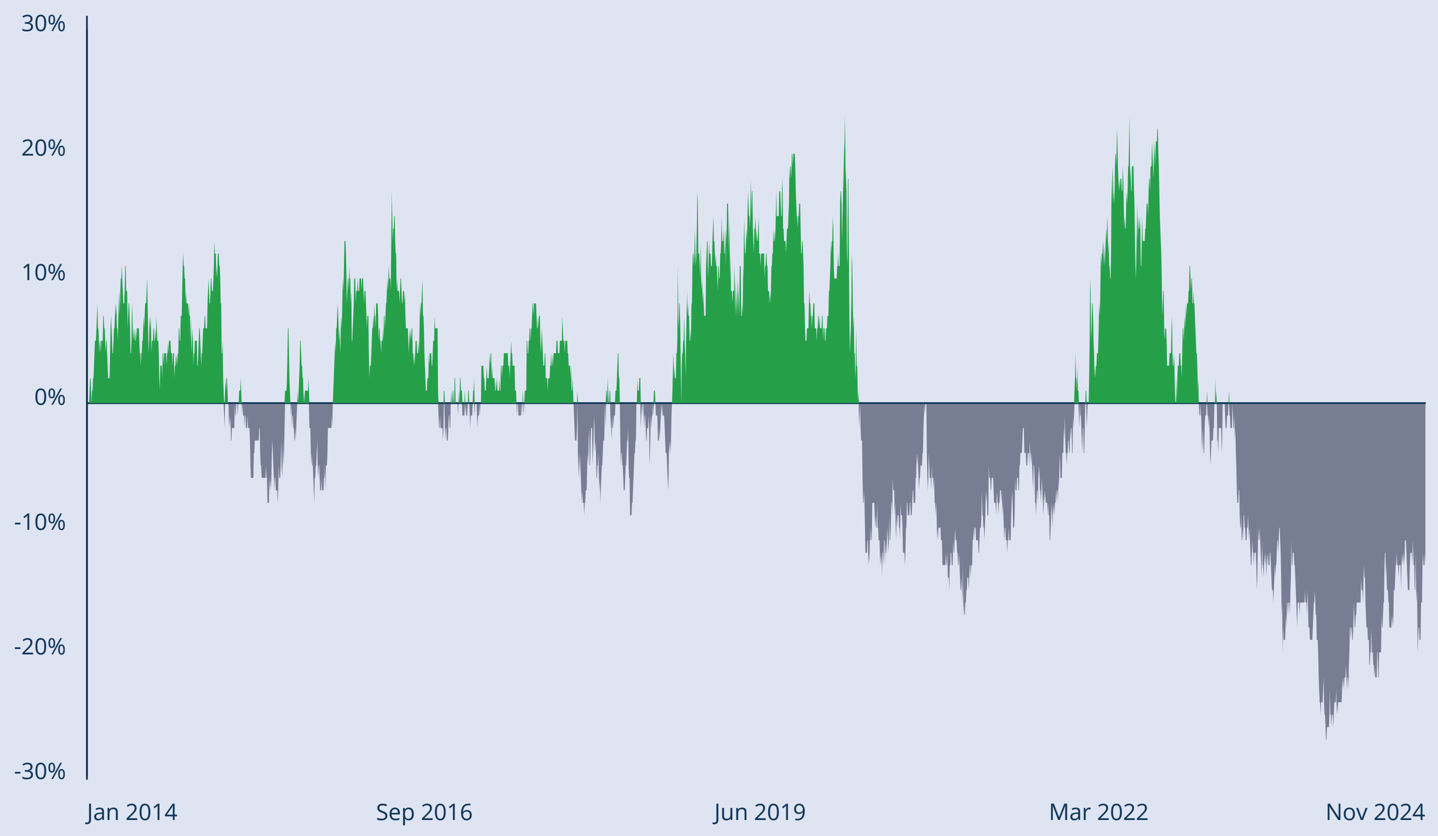
Undervalued utilities in North America. Utilities are one just example of a real asset sector trading at a valuation disconnected from its strong earnings growth outlook.

Over the last several quarters, the individual growth rates projected in utilities' business plans have begun to increase, driven by the massive capital investment required to upgrade the U.S. electrical grid to accommodate increasing power demand from deglobalization, data centers and the energy transition. We find such business-plan projections have a high degree of certainty given that utilities are regulated and large-scale asset development is capital intensive. We believe the structural growth on the horizon will extend utilities' growth trajectory for the foreseeable future; and in many cases, security prices appear to undervalue earnings growth prospects.

An ongoing energy revolution. We believe the transition toward cleaner and more reliable energy is on track to continue in 2025. In the U.S., policies to encourage clean power and decarbonization efforts enjoy bipartisan support, given the thousands of new related jobs that have been created. Meanwhile, countries outside the U.S. continue to push forward with their transition policies. In our view, this should support climate transition equities, which we believe appear mispriced amid outsized concerns about higher interest rates and policy uncertainty. In addition, the intersection of digitalization and decarbonization (with the artificial intelligence revolution as the main example) represents a structural shift for the power sector, given data centers' critical need for consistent power. We believe that companies involved in both power generation and transmission & distribution will play a key role in meeting this need—and will require unprecedented capital investment for years to come as a result.

North American Utilities Appear Mispriced Given Their Strong Growth Outlook

Forward Price-to-Earnings (P/E) Premium/Discount: Utilities vs. Broader Equities



As of November 30, 2024. Source: Bloomberg, Brookfield PSG research. Utilities are represented by the Utilities Select Sector Index (IXU), a modified capitalization-weighted index that is intended to track the movements of companies that are components of the S&P 500 and are classified as utilities. Broader equities are represented by the S&P 500 Index (SPX). 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.**

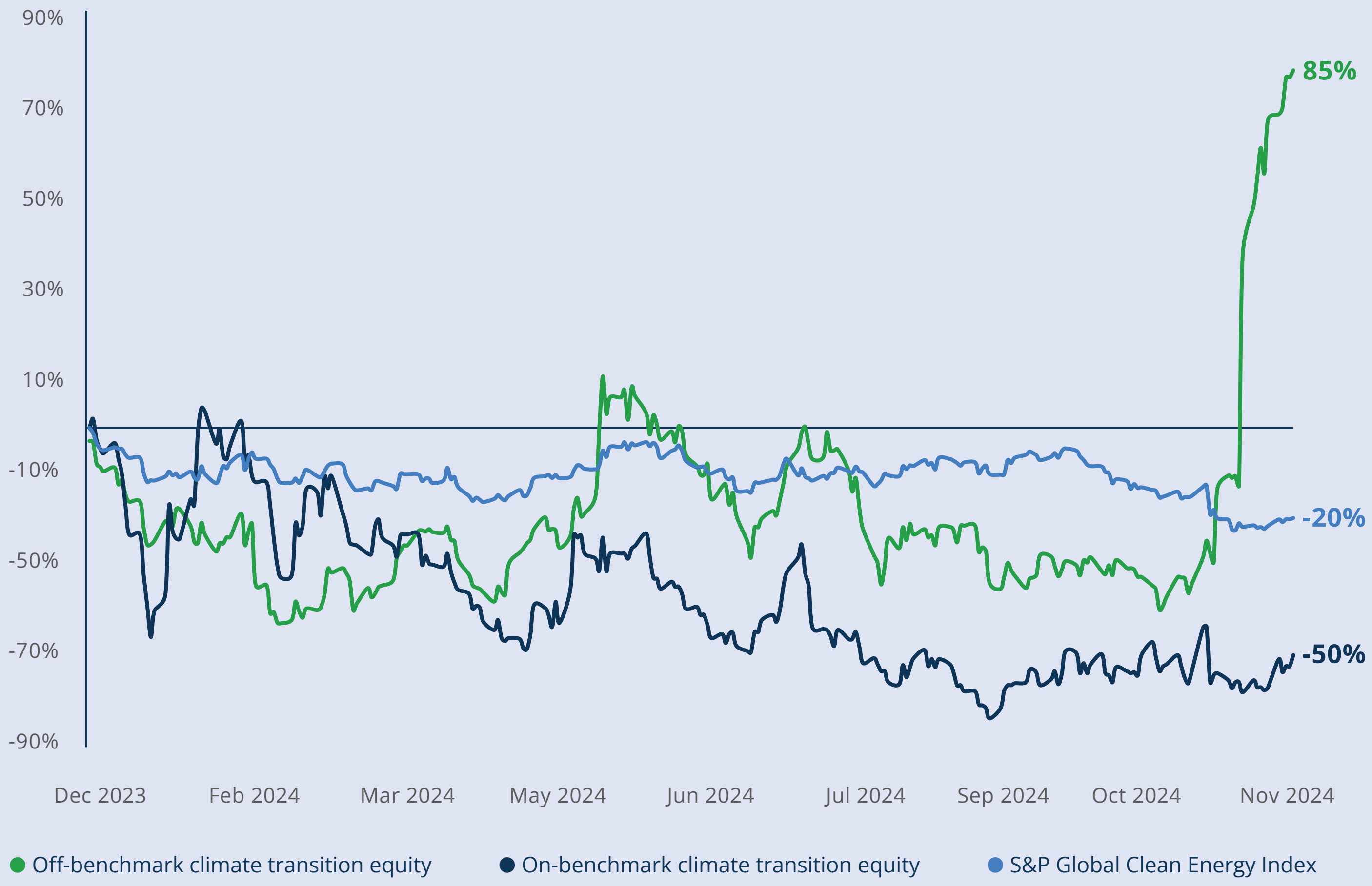
Support for the midstream sector. We believe the strong fundamentals of the energy infrastructure (or "midstream") sector may see an additional boost from policy changes and demand drivers. President-elect Trump's campaign pledged to boost U.S. energy production via deregulation and permitting reforms. Permitting reform, in particular, could drive the accelerated buildout of critical infrastructure at attractive returns. We also believe the sector's growth will be supported by robust power demand related to artificial intelligence (AI) and industrial growth.

Bottoming commercial real estate values. Indexes tracking commercial property values and private market returns are turning positive after several years of declines. As a result, more sellers are likely coming to the market, as real estate values find a bottom. Real estate investment trusts (REITs) are likely to be acquisitive and seek external growth. Combined with favorable fundamentals (including limited new supply and growing demand), we see a favorable backdrop for REIT earnings to accelerate in 2025.

As we head into the new year, there are risks to our outlook for listed real assets, including the potential for economic growth to slow more than we expect or for higher inflation to resurface. In addition, some real asset companies may be cheap for a reason, posing potential value traps. We believe active management rooted in bottom-up, fundamental analysis is key for discerning the potential winners from the losers, as market conditions evolve.

Active Management Can Potentially Capture Winners and Avoid Losers

Year-to-Date Total Return



As of November 30, 2024. Source: Bloomberg, Brookfield PSG research. 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.**

Case Study: Climate Transition Equities

The climate transition equities universe provides a good example of how active management is critical to risk mitigation while navigating the early stages of megatrends. In such a dynamic and evolving landscape, many competing new technologies face uncertainty around applicability and adoption. This results in an inevitable dichotomy where companies that embrace these challenges with sound capital allocation and strategic vision can emerge as industry leaders while others may fail to gain the necessary traction longer-term, potentially leading to negative investment returns. An actively managed investment strategy can seek to avoid underperforming large index exposures while identifying the same key trend through idiosyncratic exposures. For example, behind-the-meter fuel cells are an emerging technology in the climate transition equities landscape, but we identified key characteristics within one particular fuel cell company that we believe can help alleviate power constraints related to its solution. This company is off-benchmark to the S&P Global Clean Energy Index, while a major fuel cell provider that has underperformed is a key index constituent. Through such exposure choices, we believe active management can offer a better risk-adjusted approach to mitigate technology risk, while potentially providing outperformance vs. passive alternatives.

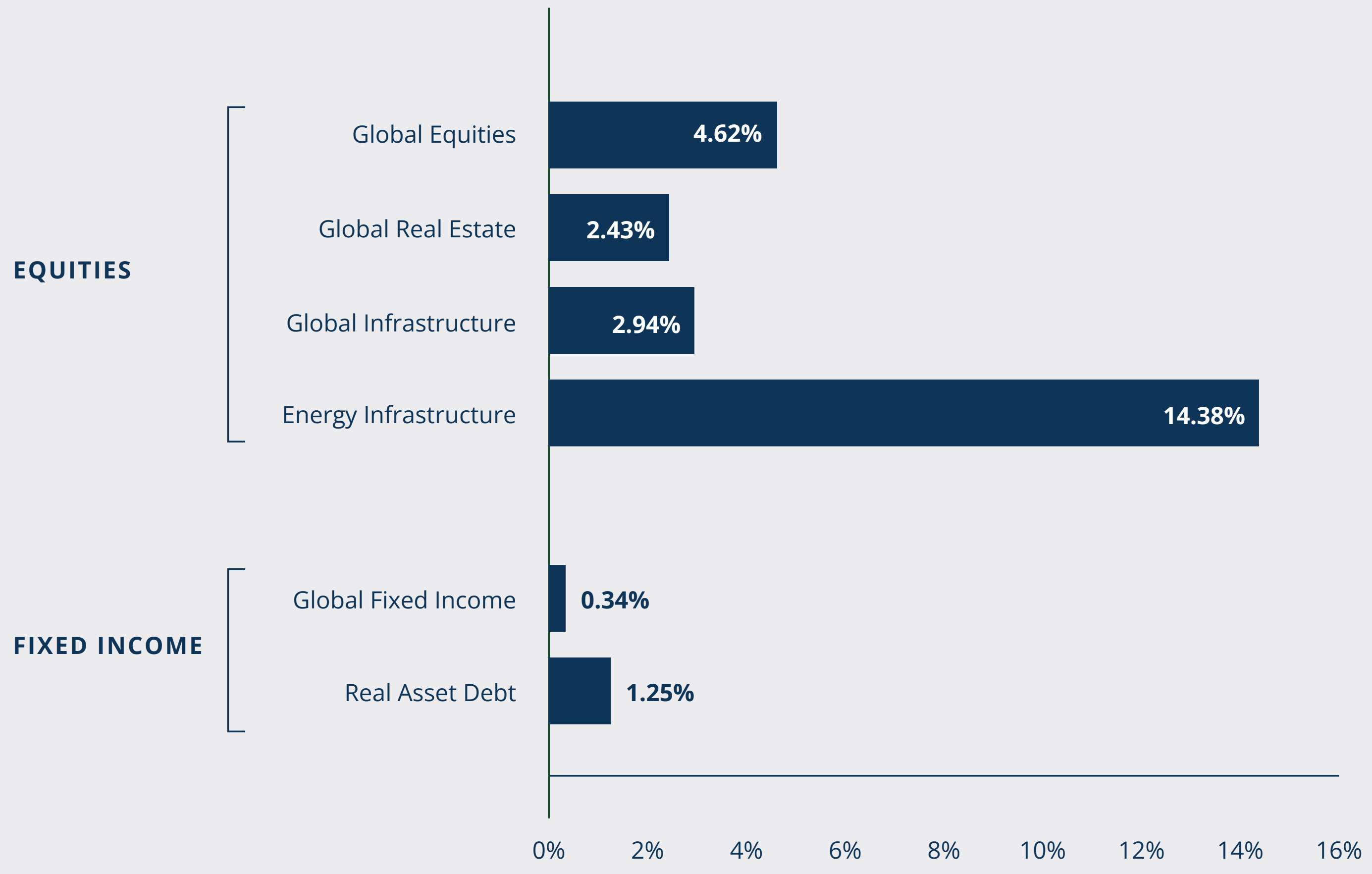
Real Assets Month in Review

Real Assets

- Global equities rose in November after a quick and decisive U.S. election outcome. The MSCI World Index rose 4.62%, with North America and Asia Pacific up 6.28% and 1.37%, respectively, while Europe fell 1.66%. The S&P 500 Index rose 5.87%, its biggest monthly gain this year, on expectations of further tax cuts and deregulation. U.S. equities outperformed other markets, which were weighed down by concerns around trade policy risks.
- The 10-year U.S. Treasury yield fell to 4.17%, from 4.28% at the end of October. Oil prices were largely unchanged during the month. West Texas Intermediate Crude Oil finished the month at $68.72, down from $69.26 at the end of October, while the Bloomberg Commodity Index gained 0.41%.
- As it lowers rates, the U.S. Federal Reserve is seeking to achieve a soft economic landing amid steadily declining inflation and modestly higher U.S. unemployment. Lower interest rates signal both risks and opportunities in our investment universe. The impact of higher rates on economic growth has been relatively muted to date, but we think it could accelerate in coming quarters, given the lagged effect of monetary policy. At the same time, we believe more defensive, rate-sensitive assets stand to benefit from improved fundamentals and more favorable investor sentiment.
- Positioning in our diversified real asset portfolios reflects a preference for real asset equities over real asset debt. Within our equity exposure we maintain a preference for more defensive assets, namely utilities and core infrastructure. Real estate fundamentals are beginning to improve, but on a relative basis, we currently see more opportunity across the infrastructure sector. In our debt portfolio, we currently have a slight bias for investment-grade real asset debt over high-yield issuers.

Performance at a Glance

November Total Returns



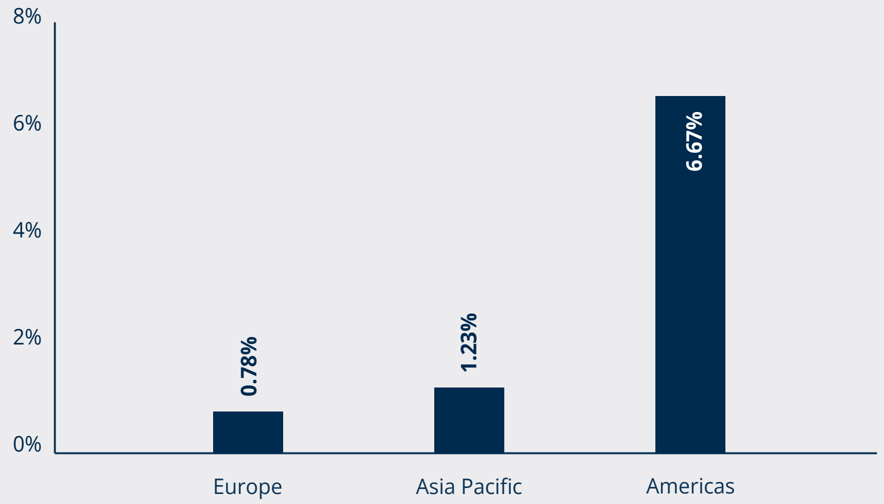
As of November 30, 2024. Source: Bloomberg, Brookfield PSG, U.S. Department of Commerce. See disclosures for full index representations and definitions. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

Global Infrastructure

- Global infrastructure equities rose in November, helped by a falling 10-year U.S. Treasury yield. The FTSE Global Core Infrastructure 50/50 Index finished the month up 2.94%, underperforming the broader market.
- Among infrastructure sectors, energy infrastructure outperformed, with the Alerian Midstream Energy Index up 14.38% and oil & gas storage & transportation up 9.73%. Utilities also were strong performers, while communications and ports posted negative returns. Within climate transition equities, traditional renewables had a difficult month amid the U.S. election results. In contrast, the more infrastructure-like circular economy theme was a large outperformer, up 8.36%.
- We believe the near-term outlook for infrastructure equities remains compelling. Strong demand for new power is shaping tailwinds across the energy midstream, utilities and renewable power sectors. Additionally, the communications and transports sectors should continue to benefit from digitalization and deglobalization trends, respectively.

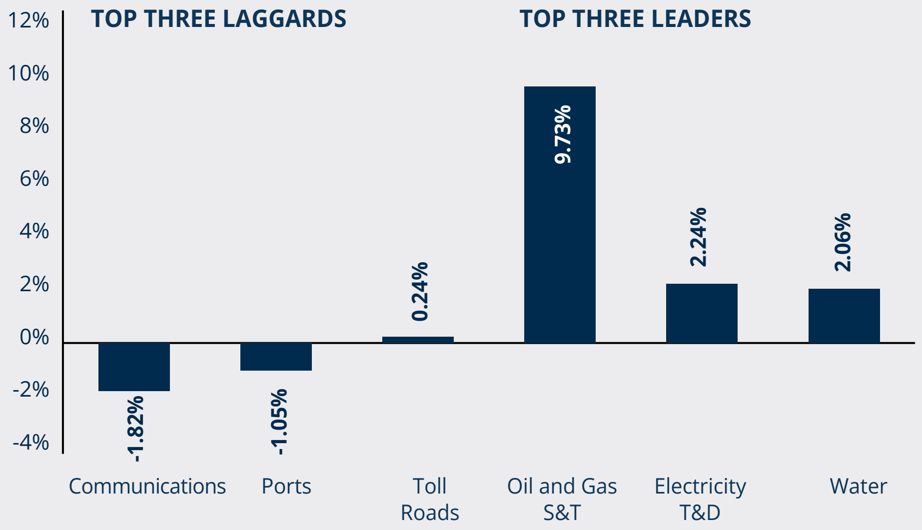
Performance by Geography

November Total Returns



Performance by Sector

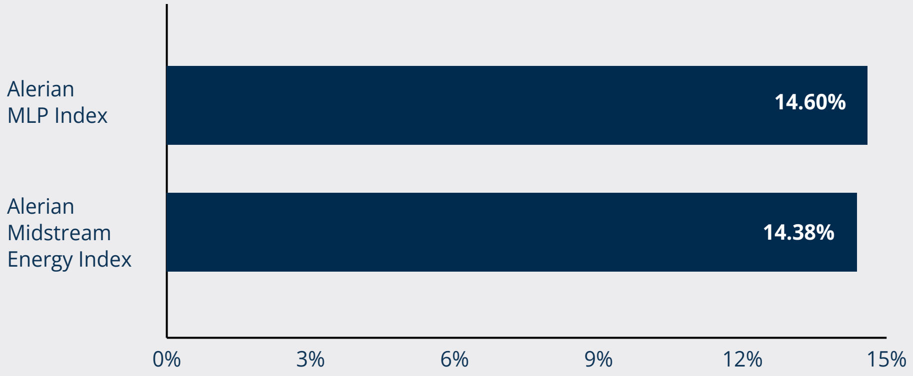
November Total Returns



As of November 30, 2024. 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. "S&T" stands for storage and transportation. "T&D" stands for transmission and distribution. 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

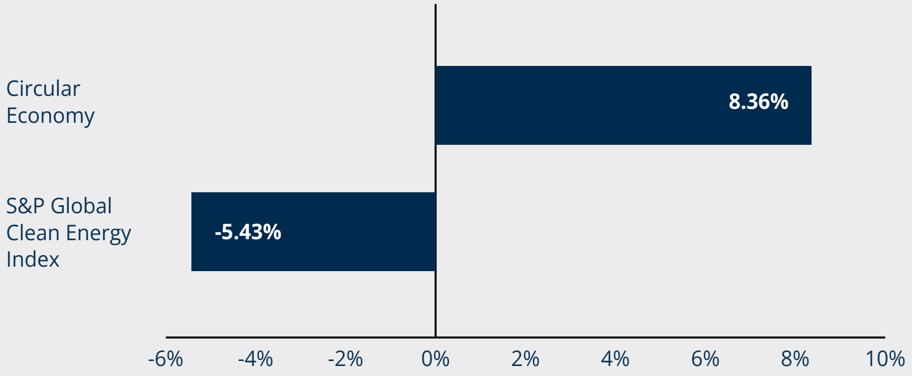
November Total Returns



As November 30, 2024. 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.**

Climate Transition Thematics Performance

November Total Returns



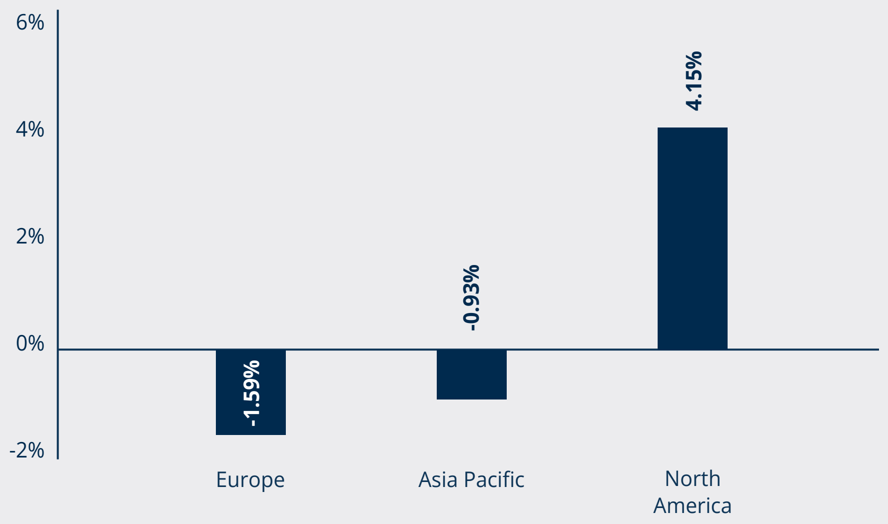
As of November 30, 2024. Source: Bloomberg, Brookfield PSG. Circular economy performance is based on data for the top three waste maangement companies by market size. See disclosures for additional information **It is not possible to invest directly in an index. Index performance is shown for illustrative 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 finished November higher, as the 10-year U.S. Treasury yield ended the month lower. The FTSE EPRA Nareit Developed Index rose 2.43%, underperforming broader equities.
- Among U.S. property types, data centers and hotels posted the largest gains, while mixed-use property types lagged.
- Recent data show that commercial real estate values are beginning to trend higher, suggesting that uncertainty around the asset class is beginning to abate. We believe transaction activity is likely to accelerate in the coming quarters, which presents an opportunity for REIT management teams to execute on growth strategies. We see valuation dispersions across property types and regions creating opportunities to create value via buying and selling.

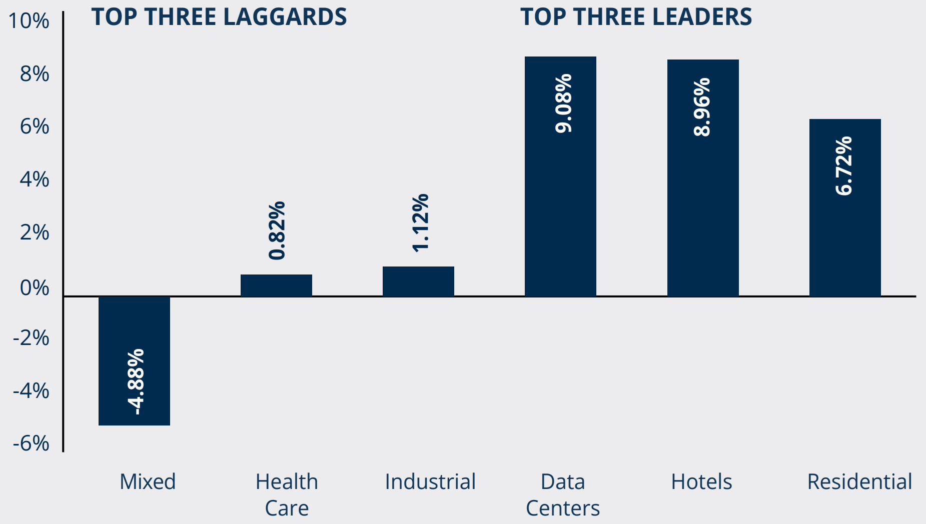
Performance by Geography

November Total Returns



Performance by U.S. Property Type

November Total Returns



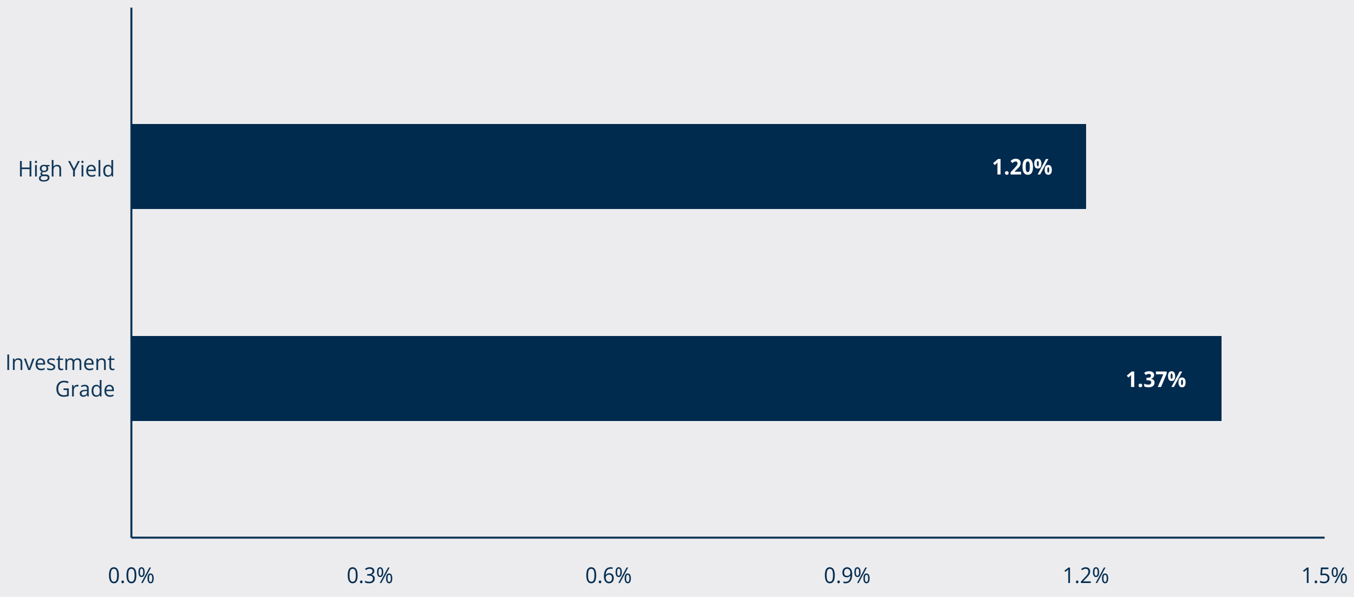
As of November 30, 2024. Source: Bloomberg. Referenced by the U.S. property types measured by the FTSE Nareit U.S. Real Estate Index Series. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

Real Asset Debt

- Fixed-income markets were positive in November, as U.S. Treasury rates fell, and credit spreads tightened to post-GFC lows. Broad investment grade rose 1.20%, as measured by the ICE BofA U.S. Corporate Index, and broad high yield rose 1.15%, as measured by the ICE BofA U.S. High Yield Index. Real asset investment grade outperformed its broader market counterpart due to its longer duration, and real asset high yield was roughly in line with broad sectors.
- We anticipate elevated volatility within credit markets broadly in the coming quarters as investors and the Fed digest economic and regulatory policy changes from a Republican-led Washington, D.C. The leveraged finance market (including high yield, leveraged loans and private credit) may be particularly volatile in lower-rated segments where borrowing costs are likely to remain high for creditors despite recent rate cuts. We believe high yield default rates may remain near historical averages (including distressed exchanges), and leveraged loan default rates are likely to continue trending higher.
- While broad high yield spread-tightening has been led by CCC-rated bonds, we believe real asset sectors of high yield, particularly within the BB-rated segment, are relatively attractive after adjusting for projected credit losses. We are finding that current valuations within infrastructure high yield are among the most attractive within high yield, especially among certain hybrid securities. Infrastructure high yield offers significantly more potential yield relative to broad high yield, and we believe there are attractive idiosyncratic opportunities for sector specialists.

Real Asset Debt Performance

November Total Returns



As of November 30, 2024. 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.**

Disclosures and Definitions

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 2024 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.

Bond ratings are grades given to bonds that indicate their credit quality as determined by private independent rating services such as Standard & Poor's, Moody's and Fitch. These firms evaluate a bond issuer's financial strength or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from AAA, which is the highest grade, to D, which is the lowest grade. Credit ratings are subject to change.

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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 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 master limited partnerships, or 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 EPRA Nareit U.S. Real Estate Index series tracks the performance of listed real estate companies and REITs in the United States.

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 semiannual 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 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 Global Clean Energy Index is designed to measure the performance of companies in global clean energy-related businesses from both developed and emerging markets, with a target constituent count of 100.

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

The 10-year U.S. 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.

The Utilities Select Sector Index is a modified capitalization-weighted index that tracks the performance of utility companies in the S&P 500. The index includes companies in the following industries: electric utilities, water utilities, multi-utilities, independent power and renewable electricity producers, and gas utilities.

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.

Brookfield

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- The Time Is Now for Investing in the Climate Transition
- The Whole Picture: Combining Public and Private Real Assets to Meet Portfolio Objectives
- After the U.S. Election: Implications for Listed Real Asset Investing

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