Brookfield Real Assets Monthly

INSIGHTS: MANAGING RISK AMID MACRO UNCERTAINTY

The Brookfield Public Securities Group's portfolio risk and analytics team helps our listed real asset investing teams monitor risk through customized analysis and daily risk reports for each strategy, covering everything from concentration risk by region and industry to historical stress tests of portfolios. We recently sat down with Riley O'Neal, the director of the portfolio risk and analytics team, to discuss how he is helping our portfolio managers play defense and manage risk in today's uncertain economic environment.

Q. What worries you about markets today?

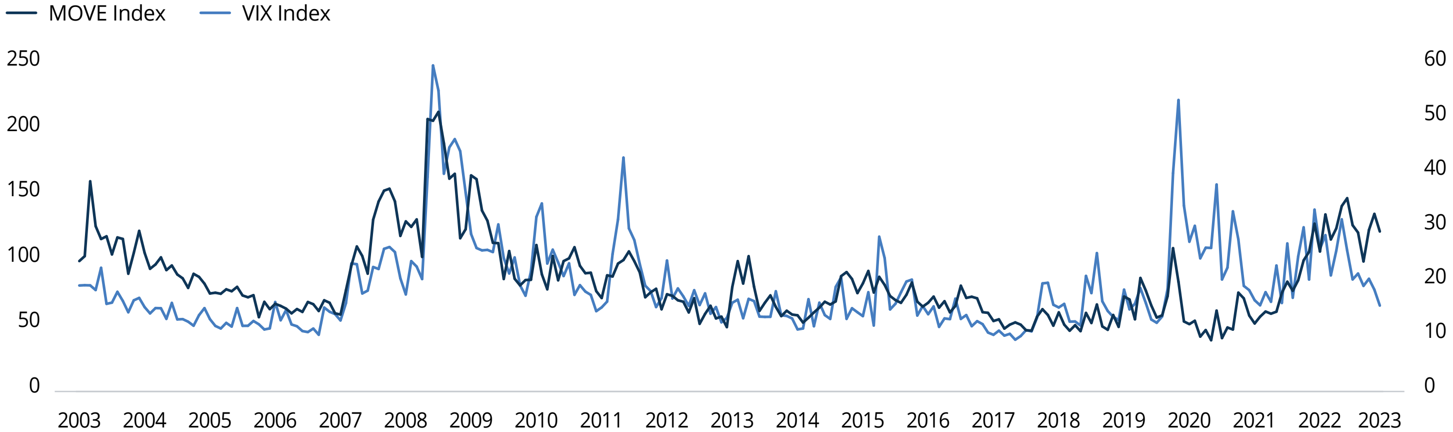
A. There is a high level of macro uncertainty, with a very large disconnect between credit and equity markets. The MOVE Index, a measure of the implied volatility of interest rates, is near all-time highs, while the VIX, a similar equity market measure, is the lowest it has been in months. The equity market is saying "Don't worry. We're going to have a soft landing. We're all in the clear," while the credit market is signaling uncertainty about the future path of rates and economic risks such as the debt ceiling and banking system stress. It seems as if there's some complacency in equity markets, and nobody knows when that is going to turn—and whether the equity market or the credit market is right. And typically the credit market tends to be right.

Q. How are you helping PSG investment teams navigate this uncertainty?

A. We have seen periods in the past that have looked like this, and we try to use those periods to identify what types of risk outperform or underperform. When we have a lot of macro uncertainty, like we do today, we try to encourage the portfolio managers to focus the majority of their risk in idiosyncratic or company-specific storylines. We try to limit exposure to factors that may be driven by macro or market outcomes that are very uncertain and make sure our relative risk is really coming from what we do best—picking stocks and bonds.

THERE IS A DISCONNECT TODAY BETWEEN IMPLIED EQUITY VOLATILTY AND IMPLIED RATE VOLATILITY

Equity Volatility and Implied Rate Volatility (5/8/2003-5/3/2023)



As of May 3, 2023. Equity volatility is represented by the CBOE Volatility Index, or VIX, and implied rate volatility by the ICE BofAML MOVE Index. 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.**

Q. What are some examples of factors you try to limit exposure to today?

A. Certain factors tend to underperform in a risk-off market: high beta, low quality and high leverage. High-quality stocks typically outperform because they are viewed as more defensive and stable. This is why our teams are focused on investing in quality companies with healthy balance sheets, strong earnings outlooks and solid cash flows.

We also try to make sure our overall exposure to various industries or regions is not taking unintended bets on the direction of the economy or markets; for instance, that we're not overweight the most economically sensitive and cyclical sectors or regions.

In addition, we seek to limit our exposure to certain themes, such as regional banking issues, and we're very focused on liquidity. If things turn bad very quickly, you don't want to be stuck in positions that you can't exit.

Q. What would make you want to take on more macro or market risk?

A. Until there is more clarity on the direction of rates and the economy, we would much rather our teams focus on company-specific risks, such as upcoming earnings or regulatory events, and on the great opportunities for employing bottom-up, fundamental analysis and active management in an uncertain environment.

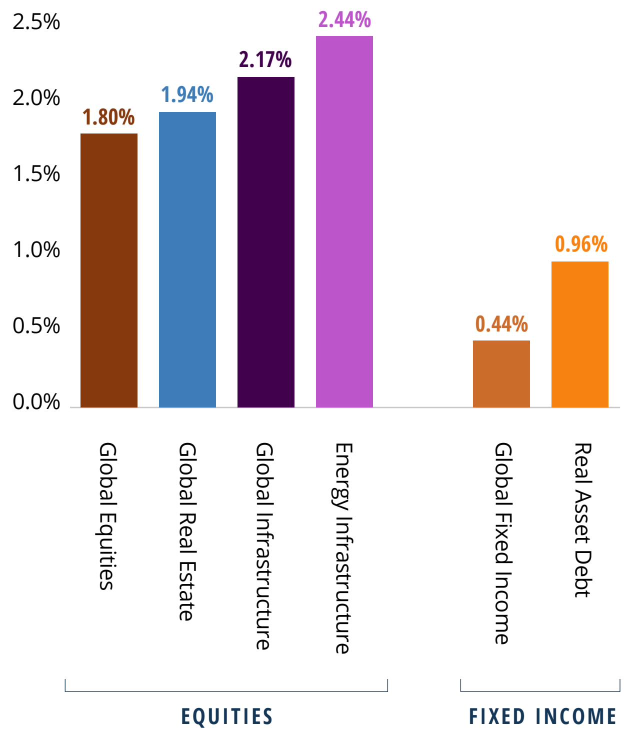
Real Assets Month in Review

REAL ASSETS

- Global equities slightly rose in April amid better-than-expected first-quarter earnings, upbeat economic data and hopes the Federal Reserve may soon move to the sidelines. The MSCI World Index gained 1.80% during the month, with Europe, North America and Asia Pacific up 4.31%, 1.35% and 0.30%, respectively. In the U.S., the S&P 500 Index increased 1.56%, despite further stress in the banking system during the month.
- The 10-year U.S. Treasury yield fell to 3.42% from 3.47% at the end of March, as markets anticipated that the Fed's May hike could be its last before a pause. West Texas Intermediate Crude Oil finished the month at $76.78, up $1.11 from the end of March. The Bloomberg Commodity Index fell 0.75%.
- We believe global growth will slow in 2023, as weaker corporate earnings translate into higher unemployment and instability in the banking sector reduces credit availability for small businesses, tightening financial conditions beyond that already accomplished by the synchronized policy responses of global central banks. Policy tightening will likely slow as inflation slows, but policy rates may remain higher for longer to fully work through economies. As such, our positioning remains defensive within our portfolio, with an underweight to real asset equities, a modest overweight to real asset debt, and defensive cash positioning. We hold no direct commodity exposure.
- 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 renewables and energy midstream equities, which we believe could benefit from the energy transition toward renewable power and the global push for energy security. Within real estate, although valuations appear attractive, we believe slowing economic growth may pressure this more cyclical sector further. Finally, the material increase in bond yields over the past year has made real asset debt significantly more 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

April 2023 Total Returns



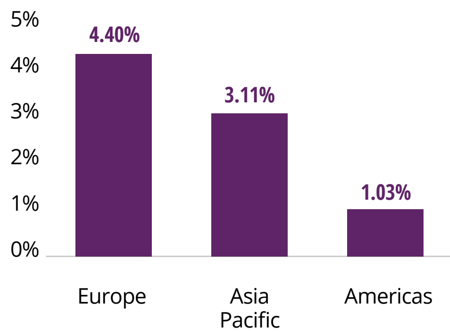
As of April 30, 2023. Source: Bloomberg, Brookfield PSG, U.S. Department of Commerce. See disclosures for full index representations and definitions. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance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

GLOBAL INFRASTRUCTURE

- Global infrastructure equities outperformed broader equities in April. The FTSE Global Core Infrastructure 50/50 rose 2.17%. Airports, communications and ports were the only sectors that did not advance during the month. The Alerian Midstream Energy Index gained 2.44%.
- Earnings were the main source of news flow during the month. We saw several earnings beats across many subsectors. In particular, we are seeing airport traffic levels improve meaningfully across the globe.
- Amid the potential for additional market volatility, we maintain our defensive positioning favoring companies with high-quality cash flows, healthy balance sheets and little to no regulatory or policy headwinds. In this environment, we believe exposure to listed infrastructure securities may mitigate downside risk in an equity allocation.

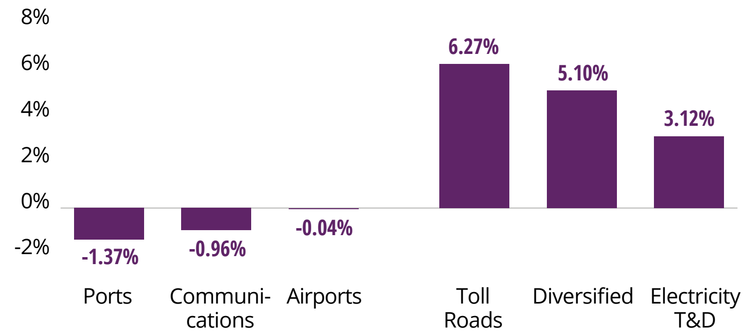
PERFORMANCE BY GEOGRAPHY

April 2023 Total Returns



PERFORMANCE BY SECTOR

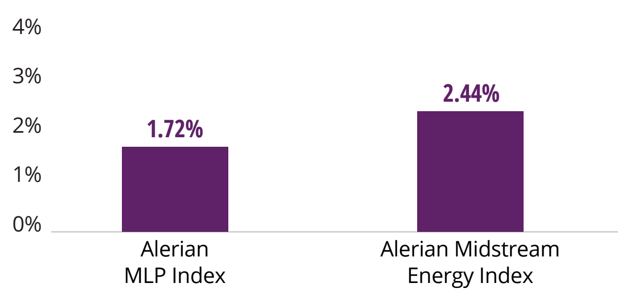
Top Three Laggards **Top Three Leaders**



As of April 30, 2023. Source: Bloomberg. Referenced by the Dow Jones Brookfield Global Infrastructure Composite Index. Brookfield has no direct role in the day-to-day management of the Brookfield Infrastructure Composite. "T&D" refers to 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

April 2023 Total Returns



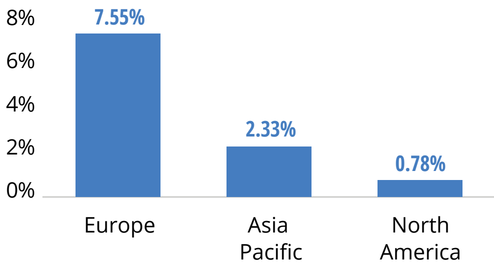
As of April 30, 2023. Source: Bloomberg. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future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

GLOBAL REAL ESTATE

- Global real estate securities performed roughly in line with global equities in April. The FTSE EPRA Nareit Developed Index rose 1.94% during the month. All regions were positive, led by Europe and Asia Pacific, with North America posting marginally positive gains. Among U.S. property types, health care and residential posted the strongest gains in April, while mixed-use and diversified landlords lagged.
- Commercial real estate remains in the news, with many headlines suggesting it is a canary in the coal mine signaling potential danger ahead for financial markets. We do not believe the outlook is as dire as many believe. For low-quality, poorly capitalized assets, we believe the future will be challenging. For high-quality real estate assets positioned to withstand a possible recession, we think the outlook may be bright.
- Given the discounted valuations, improved balance sheets and strong fundamentals across the asset class, we think global listed real estate offers an attractive entry point into a compelling long-term opportunity. But, in our view, an active approach to listed real estate is imperative to effectively navigate the current environment and capture the opportunity.

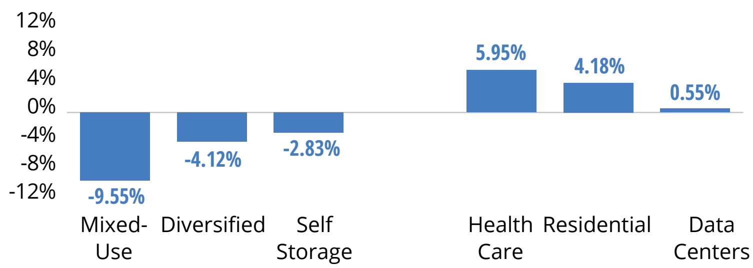
PERFORMANCE BY GEOGRAPHY

April 2023 Total Returns



PERFORMANCE BY U.S. PROPERTY TYPE

Top Three Laggards **Top Three Leaders**



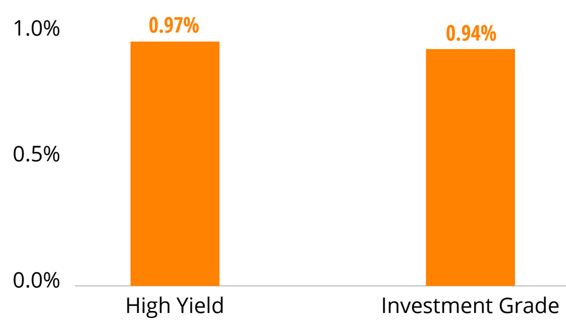
As of April 30, 2023. Source: Bloomberg. Referenced by the FTSE EPRA Nareit Developed Index. See disclosures for additional information. **It is not possible to invest directly in an index. Past performance is not indicative of future results. Performance is shown for illustrative purposes only and does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

REAL ASSET DEBT

- Fixed-income markets rose in April as better-than-expected earnings and growing anticipation of a Fed "pause" helped sentiment. Broad investment grade rose 0.85%, as measured by the ICE BofA U.S. Corporate Index, as interest rates modestly ticked down in the middle of the yield curve and credit spreads contracted slightly. Broad high yield gained 0.97%, as measured by the ICE BofA U.S. High Yield Index, despite default activity rising to a 33-month high, according to JP Morgan. However, default rates still remain at a relatively low level historically. Both real asset high yield and real asset investment grade performed roughly in line with their broader bond market counterparts, up 0.97% and 0.94%, respectively.
- We are closely monitoring default activity in broad markets and in our core real asset sectors. A total of 17 companies have defaulted year to date, according to JP Morgan, but so far relatively few have been within real asset sectors. Within real estate, while many headlines have focused on distress in the office sector, we find that current yield levels for many high-quality issuers with strong balance sheets generally adequately compensate for risk.
- We expect a moderate slowdown in the economy in the coming quarters and feel that now is an opportune time to be exposed to real asset debt vs. broad fixed income. Within real asset debt, credit spreads remain near their longer-term averages, but attractive yields continue to provide opportunities for upgrading the quality of real asset debt portfolios. In today's market environment, we continue to favor infrastructure debt and are finding more opportunities in real asset investment grade vs. real asset high yield.

REAL ASSET DEBT PERFORMANCE

April 2023 Total Returns



As of April 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. Past performance is not indicative of future results. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment.**

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.

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

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

The CBOE Volatility Index® (VIX® Index®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

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 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 ICE BofAML Option Volatility Estimate (MOVE) Index is a yield-curve-weighted index of the normalized implied volatility on 1-month Treasury options which are weighted on the 2-, 5-, 10- and 30-year contracts.

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 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 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 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 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 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.

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