Brookfield Real Assets Monthly

INSIGHTS: PLAYING DEFENSE AS DEFAULTS RISE

Defaults on high-yield bonds have been on the rise in recent months—and are forecast to continue to grow—as financial conditions tighten along with the fastest pace of Federal Reserve hikes in decades. However, we find most of these defaults have been in non-real asset sectors, with real asset high yield offering higher quality and a defensive option for credit portfolios.

U.S. high-yield bond and leveraged-loan default rates increased to new two-year highs in May, with further increases expected through 2024, according to J.P.Morgan data. The $42.7 billion of defaults and distressed exchanges this year through the end of May already equals 89% of 2022's total and represents more than triple 2021's 14-year low of $13.9 billion, according to the J.P.Morgan data, which also showed 2023 is now on track for the third largest annual default total.

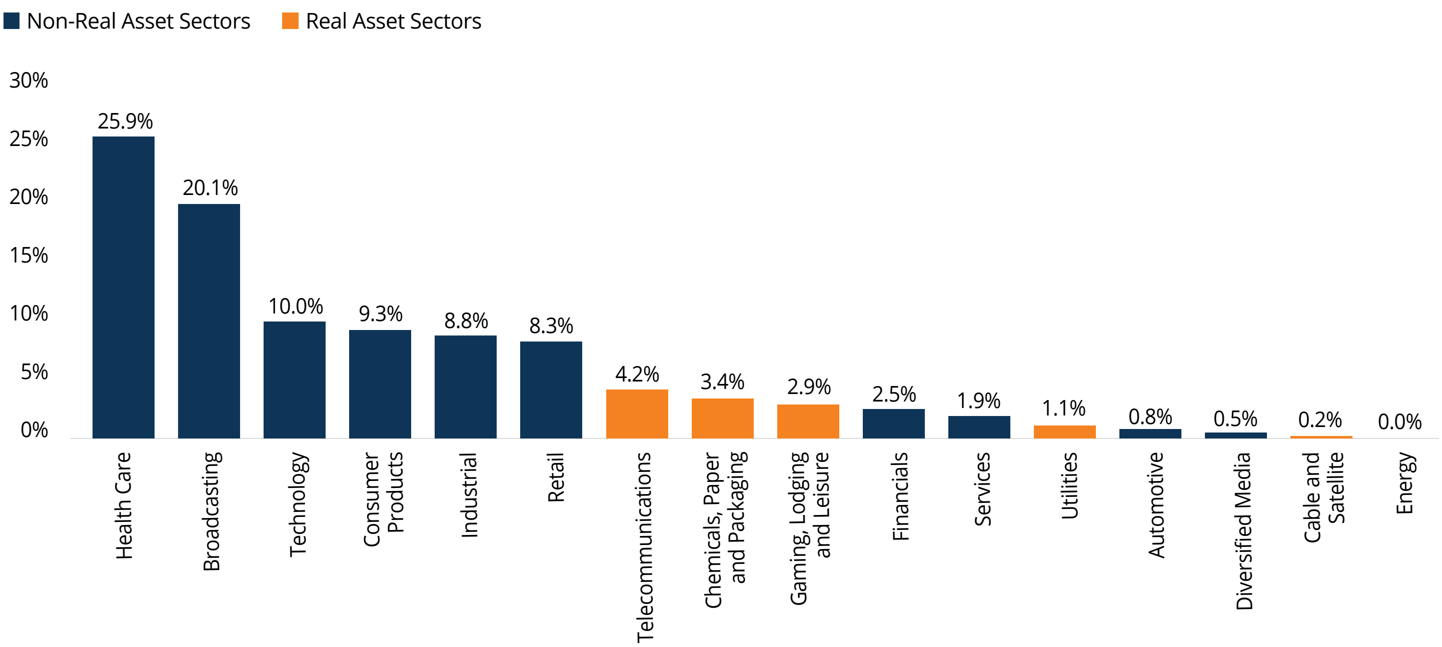
Yet real asset sectors represent just 11.9% of defaults and distressed exchanges year to date, based on our analysis of J.P.Morgan default data, even though they comprise approximately 46% of the high yield market, as measured by the ICE BofA U.S. High Yield Index.

We observe the same trend historically and during periods of economic distress. According to our analysis, between 1970-2021, on a 10-year rolling average, the default rate among non-real asset sectors was 51% higher than in real asset sectors. Meanwhile, in past periods of economic distress, we found non-real asset sectors defaulted 33% more than real asset sectors.

We attribute the lower defaults among real asset sectors to the higher quality of real asset high yield. Higher-rated high-yield debt (i.e., with a credit rating

MOST DEFAULTS ARE OCCURRING IN NON-REAL ASSET SECTORS

Share of year-to-date defaults by industry (high-yield bond and loan defaults % of total $ amount)



As of June 1, 2023. Source: J.P.Morgan Default Monitor, Brookfield Public Securities Group LLC research. Share of defaults based on total default amount.

of B+ rated and above) is more prevalent in real asset sectors and has historically had meaningfully lower default rates compared with lower-quality debt.

We believe issuers in real asset sectors can maintain their lower default rates and have better recovery prospects over time due to their superior business quality and collateral. And despite its defensive nature and higher credit quality, real asset high yield offers attractive valuations and yields relative to non-real asset high yield. Against this backdrop, we believe real asset high yield offers an attractive defensive opportunity for credit investors.

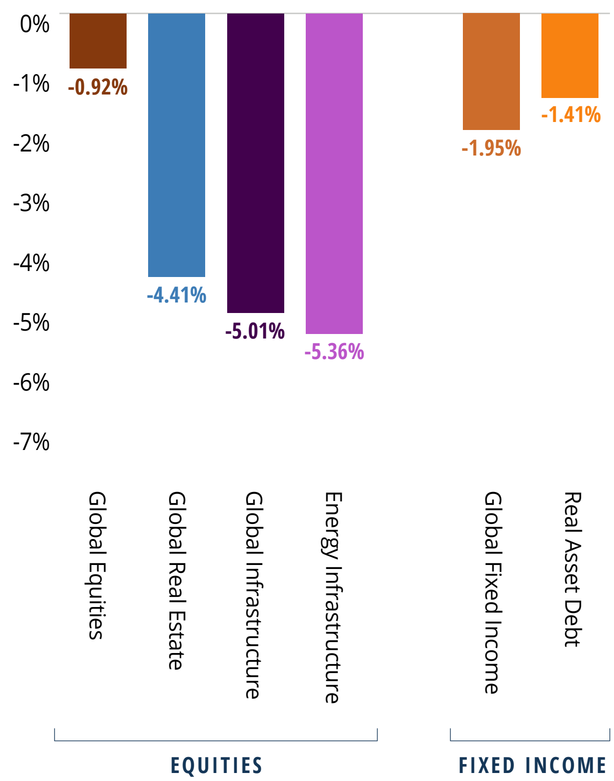
Real Assets Month in Review

REAL ASSETS

- Global equities fell slightly in May as concerns about the global economy resurfaced. The MSCI World Index declined 0.92% during the month, with mixed performance globally. North America rose 0.36%, while Europe and Asia Pacific fell 5.68% and 0.91%, respectively. The S&P 500 Index increased 0.43%, helped late in the month by a U.S. debt ceiling deal, though leadership was narrow with technology names outperforming amid enthusiasm about artificial intelligence (AI).
- The 10-year U.S. Treasury yield rose to 3.64% from 3.42% at the end of April, as data showed that inflation remains sticky. Amid concerns about slowing global growth, West Texas Intermediate crude oil fell to $68.09, down 11.32% from $76.78 at the end of April, while the Bloomberg Commodity Index declined 5.64%.
- We believe global growth will slow through the second half of 2023 as weaker corporate earnings translate into higher unemployment and excess consumer savings continue to decline. Inflation is trending lower but remains well above central bank targets, so tight monetary policy is likely to persist for some time, allowing it to fully work through economies. Overall, our positioning remains defensive within our portfolio, with a modest 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 should benefit from the energy transition toward renewable power and the global push for energy security. Within real estate, although valuations appear attractive, slowing economic growth continues to put pressure on the sector. Finally, the material increase in bond yields over the past year continues to make real asset debt 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

May 2023 Total Returns



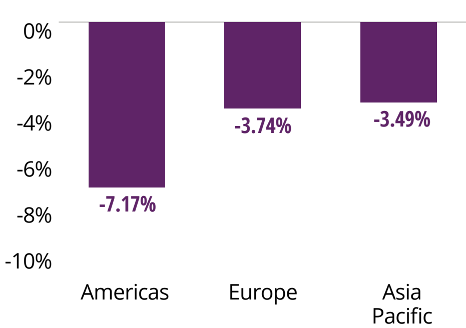
As of May 31, 2023. Source: Bloomberg, Brookfield PSG, U.S. Department of Commerce. See disclosures for full index representations and definitions. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

GLOBAL INFRASTRUCTURE

- Global infrastructure equities underperformed global equities in May. The FTSE Global Core Infrastructure 50/50 Index declined 5.01%, with all sectors posting negative returns during the month. The Alerian Midstream Energy Index fell 5.36%.
- For the first time in several years, we saw a large transaction in the energy infrastructure space. Oneok Inc. announced a definitive agreement to acquire Magellan Midstream Partners L.P. in a deal valued at nearly $19 billion. The market initially didn't seem to like the deal amid questions about the long-term strategic rationale. While we have thought we could see a wave of transactions across the industry, we are not sure this deal will be the catalyst—but we do think there are companies and assets that may make more sense together than apart.
- We believe the potential for market volatility may create opportunities for skilled managers. We are focused on capitalizing on these potential opportunities while maintaining a defensive positioning, favoring companies with high-quality cash flows, healthy balance sheets and little to no regulatory or policy headwinds.

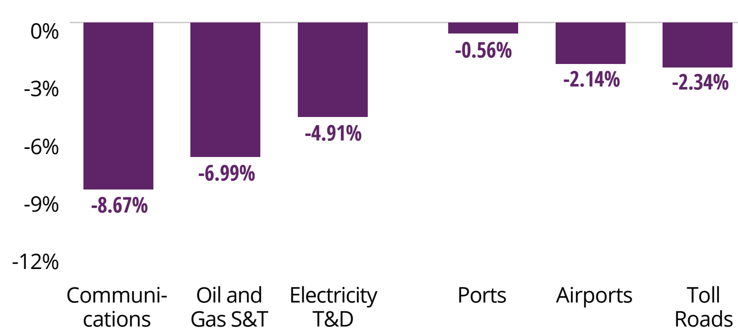
PERFORMANCE BY GEOGRAPHY

May 2023 Total Returns



PERFORMANCE BY SECTOR

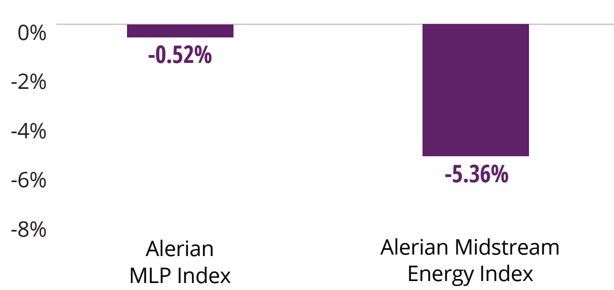
Top Three Laggards **Top Three Leaders**



As of May 31, 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. “S&T” refers to storage and transportation, while “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

May 2023 Total Returns



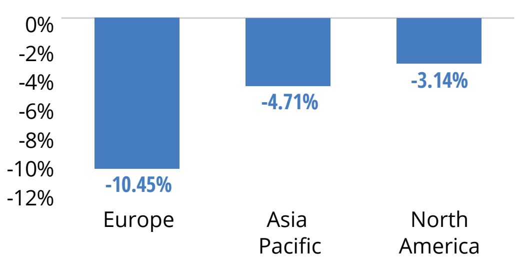
As of May 31, 2023. Source: Bloomberg. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

GLOBAL REAL ESTATE

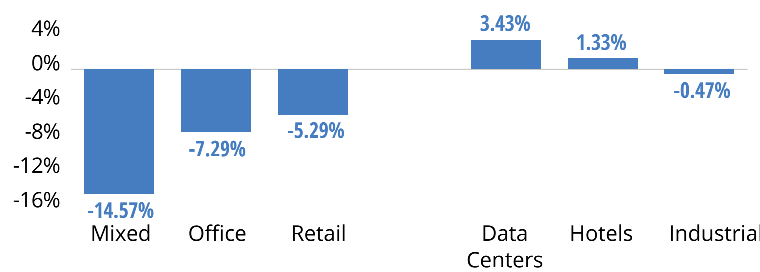
- Global real estate securities, as measured by the FTSE EPRA Nareit Developed Index, declined 4.41% in May. Among U.S. property types, only data centers and hotels posted gains. REITs with office exposure declined the most during the month amid softening fundamentals and challenging headlines weighing on the sector.
- REIT industry participants gathered during the first week in June at the Nareit conference. Among the key takeaways from the conference was the continued disconnect, across sectors like health care, industrial and residential, between robust fundamentals and operating metrics and muted transaction volume and capital markets activity.
- Discounts to private market values remain wide across property types. In our view, listed real estate securities have overshot to the downside, even considering the potential for a moderate economic slowdown. We expect valuation gaps to close as transaction markets thaw.

PERFORMANCE BY GEOGRAPHY

May 2023 Total Returns



PERFORMANCE BY U.S. PROPERTY TYPE



As of May 31, 2023. Source: Bloomberg. Referenced by the FTSE EPRA Nareit Developed Index. See disclosures for additional information.
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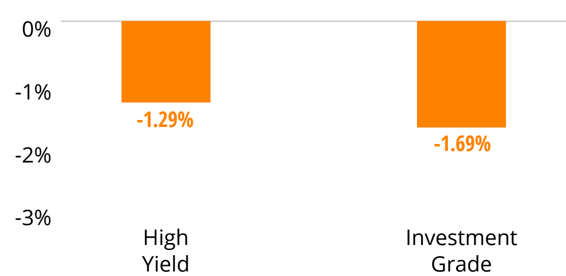
REAL ASSET DEBT

- Fixed-income markets fell in May as yields and spreads rose amid resilience in both earnings and the economic outlook. Broad investment grade fell 1.33%, as measured by the ICE BofA U.S. Corporate Index, as interest rates rose. Broad high yield fell 0.95%, as measured by the ICE BofA U.S. High Yield Index, with lower-rated credit segments continuing to outperform year to date. Both real asset high yield and real asset investment grade underperformed their broader bond market counterparts, down 1.29% and 1.69%, respectively, driven by the slightly longer duration mix of these sectors in a rising rate environment.
- Default activity among high-yield bonds and leveraged loans was elevated in May, bringing the year-to-date total of defaults and distressed exchanges to $42.7 billion through the end of May, according to J.P.Morgan. We are closely monitoring our core real asset sectors, which so far account for just 11.9% of default activity, despite those same sectors representing about 46% of the ICE BofA U.S. High Yield Index. Within real estate, while many headlines have focused on distress in the office sector, we find that current yields for many high-quality issuers with strong balance sheets adequately compensate for any risks.
- 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 and real asset high yield vs. broad high yield. 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 as well as higher-quality real asset debt.

REAL ASSET DEBT PERFORMANCE

May 2023 Total Returns



As of May 31, 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 May 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 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 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.

DEFINITIONS

A credit rating is a letter-based credit scoring scheme used to judge the quality and creditworthiness of a bond. The B1/B+ credit rating is not far below investment grade and is a high-quality speculative rating.

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