Brookfield Real Assets Monthly

KEY TAKEAWAYS

- A year after its passage, the Inflation Reduction Act has meaningful implications for listed infrastructure, creating potential opportunities for investors.
- We believe global growth will slow through the second half of 2023, and overall, our positioning remains defensive.
- We see opportunities in U.S. utilities, higher-quality real estate assets and infrastructure debt.

INSIGHTS

INFLATION REDUCTION ACT CREATING POTENTIAL OPPORTUNITIES IN LISTED INFRASTRUCTURE

It has been a year since President Biden signed the Inflation Reduction Act (IRA) into law, providing a good opportunity to check in on the landmark 2022 legislation's widespread and meaningful implications for listed infrastructure. The IRA significantly expanded economic incentives for clean energy projects, driving a new wave of growth opportunities that a diversified approach to listed infrastructure can potentially capture.

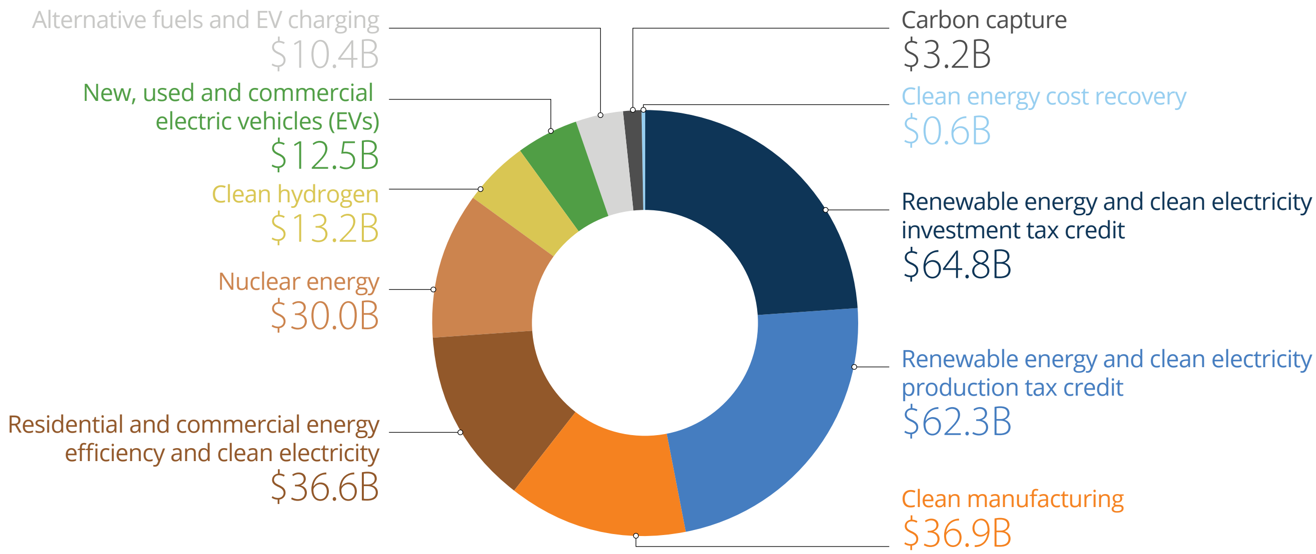
The IRA has been a "steroid shot in the arm" to renewables development, with companies that have assets within the U.S. poised to benefit. We see tax incentive adjustments serving as a catalyst for increased manufacturing production and development of wind & solar projects in the U.S. For example, the IRA removes the requirement that investor-owned utilities realize the related investment tax credit over the life of their assets, not immediately. We believe this makes solar projects more competitive and economic for utilities to own.

In addition, many of the tax credit mechanisms in the legislation last for decades or more, unlike previous incentives that lasted for one or two years.[1] This provides more visibility into future costs for offshore wind projects, which involve multiyear development periods.

The IRA also includes other incentives that are spurring investment in nuclear energy, clean hydrogen, stand-alone renewables battery storage, and carbon capture. As clean hydrogen becomes more profitable, many midstream assets could potentially be repurposed for this alternative energy source, helping to create investment opportunities for North American energy infrastructure companies. For instance, the midstream assets could be used to transport both conventional natural gas and, in some instances, hydrogen, which might be produced hundreds of miles away from its consumption centers.

INVESTMENT TAX CREDITS (ITC) AND PRODUCTION TAX CREDITS (PTC) MAKE UP NEARLY HALF OF IRA'S GREEN TAX CREDITS

Green Tax Credits in the Inflation Reduction Act (IRA)



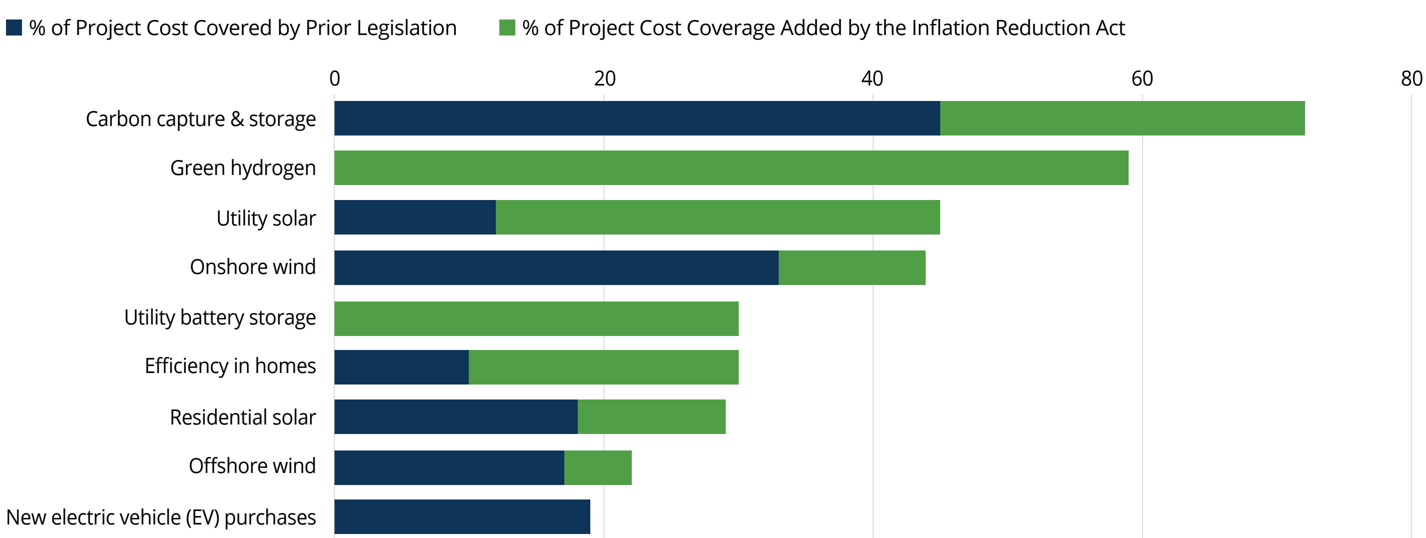
As of August 3, 2023. Source: Bank of America Global Research, EESI, Congressional Budget Office.

We are also likely to see increased clean energy investment in Europe. The early days of the European Union's proposed response to the IRA, the "Green Deal Industrial Plan," offers incentives for European companies to keep manufacturing of clean energy local. We believe this will likely spur greater spending across Europe, including investment to expand industrial manufacturing capacity for renewable energy equipment, like wind turbines or solar panels. Renewable energy and clean hydrogen could gradually reduce Europe's energy dependency on third-party suppliers.

Beyond the IRA, we also see other legislation on the horizon that could benefit listed infrastructure. We believe broader permitting reform legislation may be on the docket for the U.S. Congress later this year. Such legislation could make it easier for new projects to be built across state lines. Electricity transmission and distribution networks, interstate midstream pipelines and other projects related to the energy transition could be key beneficiaries.

THE INFLATION REDUCTION ACT EXPANDS INCENTIVES COVERING CLEAN TECHNOLOGY PROJECT COSTS

U.S. tax credits and other incentives for selected clean technology, as a % of average total project cost, 2022.



Source: Goldman Sachs, *The Economist*.

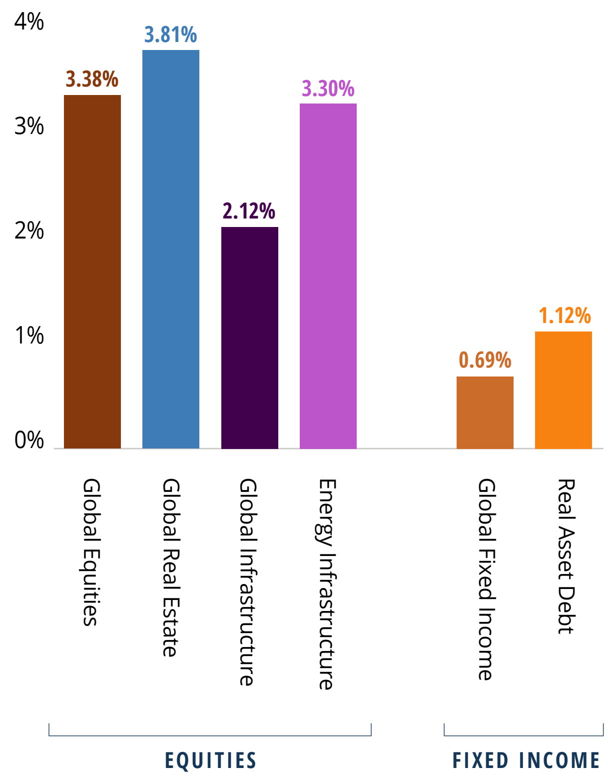
Real Assets Month in Review

REAL ASSETS

- Global equities rose in July as better-than-expected economic data and signs of cooling inflation fueled growing optimism that the Federal Reserve will be able to achieve a soft landing. The MSCI World Index gained 3.38% during the month, with Asia Pacific, North America and Europe up 3.48%, 3.44% and 3.08%, respectively. The S&P 500 Index increased 3.21%, its fifth straight monthly gain. The 10-year U.S. Treasury yield rose to 3.96% from 3.84% at the end of June, as the Fed raised interest rates by a quarter of a percentage point in July and said it would remain data dependent. Amid the better-than-expected economic data, West Texas Intermediate Crude Oil increased to $81.80 from $70.64 at the end of June, while the Bloomberg Commodity Index gained 6.26%.
- 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 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 and a modest overweight to real asset debt. 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, 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

July 2023 Total Returns



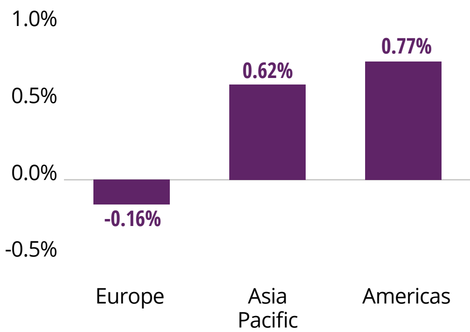
As of July 31, 2023. Source: Bloomberg, Brookfield PSG, U.S. Department of Commerce. See disclosures for full index representations and definitions. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only, and it does not predict or depict the performance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

GLOBAL INFRASTRUCTURE

- Global infrastructure equities rose in July amid broad market optimism, with the FTSE Global Core Infrastructure 50/50 Index up 2.12%. Sector returns were dispersed, likely driven by stock-specific movements, notably in communications. Energy infrastructure was the clear winner, with the Alerian Midstream Energy Index increasing 3.30%. Rising commodity prices and generally strong earnings buoyed the sector.
- The second-quarter earnings season kicked off in earnest during the month of July, with the majority of our constituents reporting. Utilities have led the pack with regard to earnings growth, and we find that current inexpensive valuations do not reflect that the sector has improved its operating efficiency and growth profile significantly. We believe the utilities that own electricity transmission and distribution assets will play a key role in ensuring a successful energy transition toward clean energy, fueling a strong growth outlook for the sector.
- Overall, we maintain our defensive positioning in listed infrastructure and have looked to consolidate some of our positions into our best ideas. We are actively focused on mitigating unintended factor risk across our strategies, given the economic uncertainty.

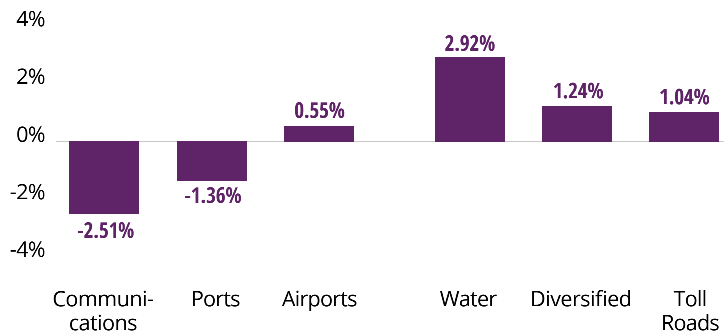
PERFORMANCE BY GEOGRAPHY

July 2023 Total Returns



PERFORMANCE BY SECTOR

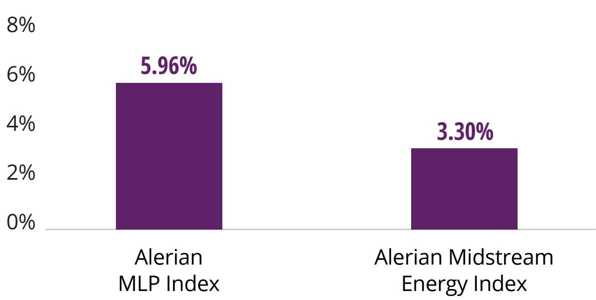
Top Three Laggards **Top Three Leaders**



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

MIDSTREAM PERFORMANCE

July 2023 Total Returns



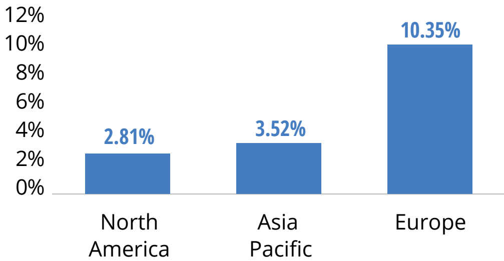
As of July 31, 2023. Source: Bloomberg. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only, and it does not predict or depict the performance of any investment. Past performance is not indicative of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

GLOBAL REAL ESTATE

- Global real estate securities gained 3.81% in July, with all regions of the FTSE EPRA Nareit Developed Index posting gains. Among U.S. property types, nearly all sectors were positive in the month as second-quarter earnings season kicked off. The lone exception was self storage, which declined more than 4% in July.
- The second-quarter real estate earnings season has been generally positive to date, with companies across most sectors reporting strong fundamentals. Despite continued concerns about secular headwinds in the office sector, operating results within the group were generally above (already-low) expectations. Positive commentary from management teams around return-to-office trends and improving leasing pipelines appeared to spur optimism within the sector. As a result, U.S. office stocks rose more than 13% in the month of July.
- Despite ongoing negative headlines plaguing the real estate sector, we continue to believe public real estate investment trusts (REITs) have little risk of default and are well positioned given modest levels of overall debt and access to a diverse array of capital sources. We think the asset class is well priced for attractive relative returns ahead, and we are focused on the highest-quality assets that are positioned to grow earnings.

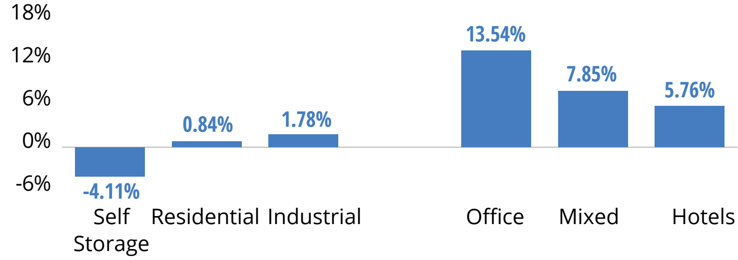
PERFORMANCE BY GEOGRAPHY

July 2023 Total Returns



PERFORMANCE BY U.S. PROPERTY TYPE

Top Three Laggards **Top Three Leaders**



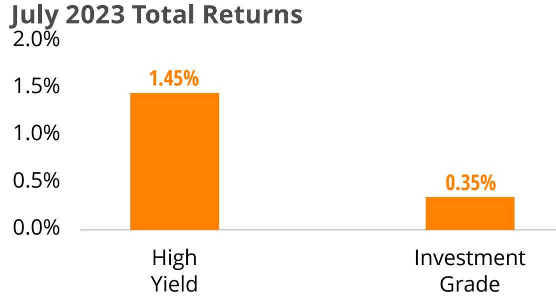
As of July 31, 2023. Source: Bloomberg. Referenced by the FTSE EPRA Nareit Developed Index. See disclosures for additional information. **It is not possible to invest directly in an index. Past performance is not indicative of future results. Performance is shown for illustrative purposes only, and it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

REAL ASSET DEBT

- Fixed income markets rose in July, as high-yield spreads tightened to a more than one-year low amid improving economic data. Broad high yield increased 1.42%, as measured by the ICE BofA U.S. High Yield Index, led by CCC-rated bonds. Broad investment grade gained 0.43%, as measured by the ICE BofA U.S. Corporate Index, despite rising U.S. 10-Year Treasury yields. Both real asset high yield and real asset investment grade were approximately in line with broader bond market counterparts, up 1.45% and 0.35%, respectively.
- Default activity among high-yield bonds and leveraged loans was lower in July relative to the first half of the year, with the year-to-date total of defaults and distressed exchanges at $55.3 billion through the end of July.[2] We are closely monitoring our core real asset sectors, which so far account for just 14.4% of default activity, despite those same sectors representing more than 45% 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

July 2023 Total Returns



As of July 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 it does not predict or depict the performance of any investment.**

ENDNOTES

[1] Source: U.S. legislative text of H.R. 5376, Brookfield Public Securities Group research.

[2] 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.

For the July 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 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 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 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 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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