Brookfield

All data as of June 30, 2024

Brookfield Real Asset Securities UCITS Fund Monthly Commentary

Global equities rose in June, as soft-landing hopes and tamer inflation in the U.S. outweighed geopolitical and election uncertainty. The MSCI World Index gained 2.07%, with North America up 3.35%, while Europe and Asia Pacific fell 2.22% and 0.37%, respectively. The S&P 500 Index increased 3.59%, as enthusiasm about artificial intelligence fueled gains for big technology companies. The 10-year U.S. Treasury yield fell to 4.40%, from 4.50% at the end of May, as a slowdown in the Federal Reserve's preferred measure of underlying inflation bolstered the case for lower interest rates later this year. West Texas Intermediate Crude Oil finished the month at $81.54, up from $76.99 at the end of May on geopolitical concerns, while the Bloomberg Commodity Index fell 1.54%.

Infrastructure equities

Global listed infrastructure securities, as measured by the FTSE Global Core Infrastructure 50/50 Index, declined 2.56% in June. Energy midstream, as measured by the Alerian Midstream Energy Index, rose 2.89%. Aside from energy midstream, only the ports sector posted gains during the month. Stocks within the diversified, airports and electricity transmission & distribution declined the most during the period.

Real estate equities

Global real estate securities declined for the second consecutive quarter. The FTSE EPRA Nareit Developed Index fell 2.15%, bringing the year-to-date return for the index to -3.17% for the first six months of 2024. During the quarter there was a meaningful amount of dispersion among U.S. property types. Health care stocks rose more than 10% during the period; and residential companies were up nearly 8%. However, deteriorating fundamentals and sentiment among industrial landlords and hotel stocks resulted in declines greater than 10% for both property types during the quarter.

Fixed income

Fixed-income markets were positive in June, as U.S. Treasury rates were down modestly for the month. Broad investment grade rose 0.64%, as measured by the ICE BofA U.S. Corporate Index. Broad high yield returned 0.97%, 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, while real asset high yield underperformed on continued weakness within telecommunications.

Diversified Real Assets Strategy Performance

On an absolute basis, infrastructure and utility equities detracted from performance in June, slightly offset by positive performance across all other equities and debt sleeves in June. Relative to the benchmark, positive security selection contributed to relative performance, partially offset by negative asset allocation effect.

Relative Contributors:

- Energy midstream equities due to positive security selection and an overweight allocation to the outperforming sector.
- Infrastructure equities due to positive security selection as well as an underweight allocation to the underperforming sector.
- Commodities due to an overweight exposure to the outperforming sector.
- Real asset investment grade debt due to an overweight allocation to the outperforming sector and positive security selection.

Relative Detractors:

- Real estate equities driven by negative security selection and an underweight allocation to the outperforming sector.
- Utilities equities due to an overweight allocation to the underperforming sector.
- Real asset high yield debt due an underweight allocation to outperforming high yield, partially mitigated by positive security selection.
- REIT preferred driven by an underweight allocation to the outperforming sector.

Infrastructure Positioning and Outlook

In our view, the listed infrastructure universe appears particularly well positioned to produce compelling risk-adjusted returns relative to broader equities and fixed income securities. Sector-specific demand drivers, a normalizing interest rate environment and attractive valuations set the stage for what we feel is a positive set up for the asset class.

Utilities

Despite the recent positive performance among utilities, we still see attractive relative values across the sector. We're focused on companies that we believe operate the best assets located in the best jurisdictions. Our portfolio positioning is focused on pro-growth environments, favorable regulatory backdrops and management teams that have a strong history of deploying capital to its highest and best use. Within the renewables sector, we think positive economics for new projects continue to improve as input costs have come down and supply chain headwinds are starting to subside.

Transports
We are focused on markets where toll road traffic is supported by population and economic growth. Airport passenger traffic volumes continue to rebound in key European and Asia Pacific markets; and we are positioned accordingly where we see the best risk/reward opportunities. We see less opportunity broadly across the rail sector, but our portfolios are positioned selectively where we identify security-specific catalysts.

Communications
Tower companies are grappling with a variety of headwinds. Not only are carriers slowing the pace of tower leasing and investment upgrades, but persistently elevated interest rates continue to weigh on costs of capital. However, we think discounted valuations among select companies reflect these headwinds, and we're optimistic that increasing mobile traffic, moderating interest rates and limited new supply of towers can help close the valuation gap.

Energy Infrastructure
In our view, the energy infrastructure sector continues to offer an attractive investment proposition. Supply and demand tailwinds for U.S. hydrocarbons remain quite strong, and balance sheets appear well positioned to meet dividend obligations.

We think natural gas is poised to benefit from U.S. electricity load growth, given its characteristics, including abundant domestic supply, a robust network of existing infrastructure, and a lower emissions profile relative to coal.

This incremental demand from the power grid is happening concurrently as the second wave of liquefied natural gas export facilities come online, which are set to more than double the U.S.'s current export capacity by the end of the decade.

Real Estate Positioning and Outlook
We continue to believe that listed real estate appears well priced compared to the broader equity market, and we see the potential for the asset class to post relatively positive returns amid a normalizing interest rate environment and moderating supply growth. In addition, as transaction markets begin to thaw, we see real estate investment trusts (REITs) boosting their external growth through acquisitions of high-quality assets at attractive pricing.

In the U.S., we currently favor high quality companies with good access to capital. Data center demand remains robust, and we see favorable opportunities within the health care, net lease and retail sectors. We maintain a more cautious view on the industrial sector until we see improving fundamentals, which we believe could happen later this year. The office sector also remains challenged and we are positioned accordingly.

We have increased exposure to Europe and have a favorable view broadly, particularly among residential, retail and industrial landlords in continental Europe. Select office landlords appear attractively valued as well. Within the U.K., we are focused on the student housing sector and what we believe are high-quality retail assets.

We maintain a level of caution in Asia Pacific, largely driven by China's slowing economy and related challenges in its property sector. That said, we're encouraged by the Hong Kong government's easing of housing transaction taxes and loan-to-value caps to encourage end user home purchases. We remain focused on companies with resilient balance sheets and what we believe are best-in-class assets.

Real Asset Debt Positioning and Outlook
We expect a moderate slowdown in the economy in the coming quarters, although fiscal policy will likely continue to support growth during this election year. Even in optimistic economic growth scenarios, default rates may continue to trend higher on higher interest costs and refinancing needs, and a soft-landing scenario with prolonged higher rates could continue to negatively impact floating-rate products.

Valuations within infrastructure high yield are among the most attractive within high yield, in our view. Infrastructure high yield spreads have decoupled from broad high yield over the past 12 months, and infrastructure high yield now offers significantly more attractive yield relative to broad high yield. Stress within the telecommunications sector has driven this difference in valuation. Telecommunications is historically a high capital-expenditure sector, and it is going through structural changes due to competitive repositioning of legacy businesses amid technological disruption, including significant build-out of fiber networks to replace copper networks. Telecommunications is the widest-trading sector in high yield. While we expect some telecommunications defaults on some large high-profile issuers, we believe there may be attractive relative value to be found among certain high-yield issues backed by high-quality infrastructure assets. Finally, we believe real asset high yield, particularly within the BB-rated segment, is relatively attractive after adjusting for projected credit losses during a potential period of elevated default rates.

OVERALL POSITIONING AND OUTLOOK

As U.S. inflation levels trends lower, and closer to the U.S. Federal Reserve’s target, we believe interest rates could be cut at least once in the second half of 2024. Meanwhile in Europe, inflation has already shown encouraging signs of easing, giving some central banks in the region confidence to start cutting rates sooner. Overall, economic growth has remained steady, but the impacts from two years of rate hikes are likely to cool the pace of expansion in the second half of 2024. We maintain a defensive positioning within our portfolio, with an underweight allocation to real asset equities and an overweight allocation to investment grade real asset debt. We also hold a modest exposure to commodities to enhance diversification amid geopolitical 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 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. More broadly, we believe infrastructure sectors that are essential to operate the backbone of the digital economy offer an attractive way to capitalize on the tailwinds from artificial intelligence and the resultant demand to store, process and distribute data. Within real estate, lingering concerns around financing and broad negative sentiment around commercial real estate remain. However, if interest rates continue to normalize through the balance of the year, we may see more transactions and price discovery, and new investment opportunities emerge. Finally, elevated Treasury yields continue to make real asset debt attractive on an all-in yield basis, however, tight credit spreads and the potential for rising default rates has reinforced our preference for the higher-quality part of the market.

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Investing in the Fund involves risk. Principal loss is possible.

The Fund will be closely linked to the real estate market. Property values may fall due to increasing vacancies or declining rents resulting from unanticipated economic, legal, cultural or technological developments. REITs are dependent upon management skills and generally may not be diversified. REITs are subject to heavy cash flow dependency, defaults by borrowers and self-liquidation. The Fund invests in small and mid-cap companies, which involve additional risks such as limited liquidity and greater volatility. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. Investing in emerging markets may entail special risks relating to potential economic, political or social instability and the risks of nationalization, confiscation or the imposition of restrictions on foreign investment. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Some securities held may be difficult to sell, particularly during times of market turmoil. If the Fund is forced to sell an illiquid asset to meet redemption, the Fund may be forced to sell at a loss. Using derivatives exposes the Fund to additional risks, may increase the volatility of the Fund's net asset value and may not provide the result intended. Since the Fund will invest more than 25% of its total assets in securities in the Real Estate industry, the Fund may be subject to greater volatility than a fund that is more broadly diversified. Past performance is no guarantee of future results. An investment in the Fund involves risk, including loss of principal. Investment return and the value of shares will fluctuate. Returns are calculated by determining the percentage change in net asset value (NAV). The returns do not reflect broker sales charges or commissions. NAV is total assets less total liabilities divided by the number of shares outstanding. This material is presented only to provide information and is not intended for trading purposes. Current performance may be lower or higher than the performance quoted.

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INDEX DEFINITIONS
The Alerian Midstream Energy Index is a broad-based composite of North American energy infrastructure companies. 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 (AMNA) and on a total-return basis (AMNAX).

The Dow Jones Brookfield Global Infrastructure Composite Index comprises infrastructure companies with at least 70% of its annual cash flows derived from owning and operating infrastructure assets, including Master Limited Partnerships (“MLPs”). Brookfield has no direct role in the day-to-day management of any Brookfield-branded indexes.

The FTSE EPRA/Nareit Global Developed Index is a free-float-adjusted, liquidity, size and revenue screened index designed to track the performance of listed real estate companies and REITs worldwide.

The FTSE Global Core Infrastructure 50/50 Index gives participants an industry-defined interpretation of infrastructure and adjusts the exposure to certain infrastructure sub-sectors. 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 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.

ICE BofA US High Yield Index tracks the performance of U.S. dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market.

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

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