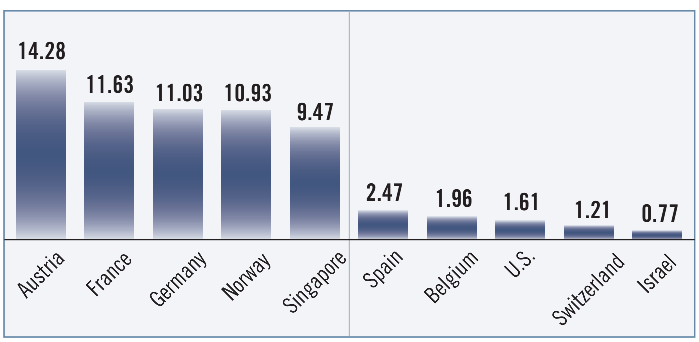
Global Growth Continues

Geopolitical tensions, natural disasters, and political divisions within many countries were relegated to background noise in 2017 as economic momentum fueled persistent bullishness across global equity markets. U.S. markets continued strong, owing to U.S. GDP finally rising above 3% (annualized), successful approval of the tax reform legislation generally regarded as pro-business, and expectations for a continued modest, measured, and well-telegraphed Fed tightening cycle. U.S., U.K., Japan, and Hong Kong stock markets ended the year with a strong final quarter, as the S&P 500®, FTSE 100, Nikkei 225, and Hang Seng Indexes were up 6.64%, 6.04%, 11.97%, and 8.84%, respectively. The yield on the 10-year U.S. Treasury ended 2017 at 2.40%, five basis points lower than where it started the year.

SELECT SECTOR HIGHLIGHTS

Global Real Estate – Global real estate equities finished 2017 on a positive note, generating a return of 3.60% during the fourth quarter and 10.36% for the full year, as represented by the FTSE EPRA NAREIT Developed Index. While global real estate continued to trail global equities as demonstrated by the 5.51% increase in the MSCI World Index (net) for the quarter and 22.40% for the year, we reiterate the benefits of real estate as an asset class and the inclusion of listed real estate in portfolios.

FTSE EPRA NAREIT DEVELOPED INDEX TOP 5 / BOTTOM 5 COUNTRIES (%) – 4Q17



Sources: FTSE, Bloomberg, L.P.

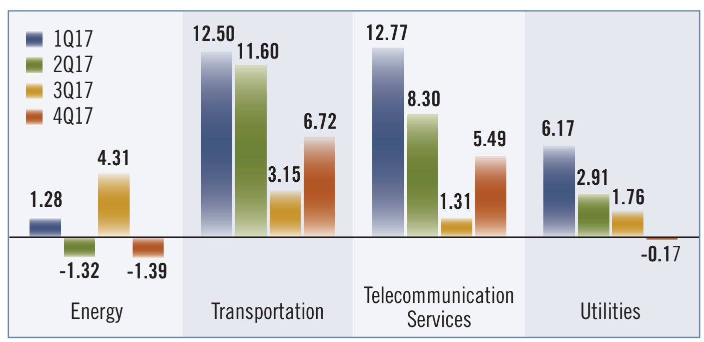
A closer look at the performance of real estate markets of individual countries represented within the FTSE EPRA NAREIT Developed Index reveals Austria, France, Germany, Norway, and Singapore as the top-performing countries during the fourth quarter on a total return basis. Austria's return during the quarter benefited from the announced acquisition of BUWOG AG, an owner and developer of Austrian and German apartments, by Vonovia, the largest public owner/ operator of German apartments.

The five bottom-performing countries in the Index during the quarter were Israel, Switzerland, the U.S., Belgium, and Spain, though all regions posted positive total returns. While Spain was a top performing regional real estate market on the year, returns during the fourth quarter were negatively impacted by the ongoing political turmoil associated with Catalonia's quest for independence.

From our perspective, the global real estate space market cycle still has room for further growth, as we expect overall space market demand to exceed supply across most property sectors and major cities. With the significant amount of private real estate equity capital that has been raised but unspent, we expect mergers and acquisitions activity to continue in 2018.

Global Listed Infrastructure – Global listed infrastructure, as measured by the FTSE Developed Core Infrastructure 50/50 Index, finished up 2.00% for the quarter and 18.18% for the year. Not surprisingly, performance was buoyed by many of the higher beta sectors, while being held back by utilities and midstream energy companies.

FTSE DEVELOPED CORE INFRASTRUCTURE 50/50 INDEX SECTOR PERFORMANCE (%)



Sources: FTSE, Bloomberg, L.P.

The transportation sector led the way with numerous rails, airports and toll roads posting double-digit returns. U.S. railway stocks rallied as these highly taxed businesses stand to be one of the biggest beneficiaries of tax reform. European airports and toll road operators also excelled in the quarter as the market gravitated towards a stronger-for-longer scenario. Other big winners were the tower companies, which reacted positively to news that T-Mobile and Sprint would not merge.

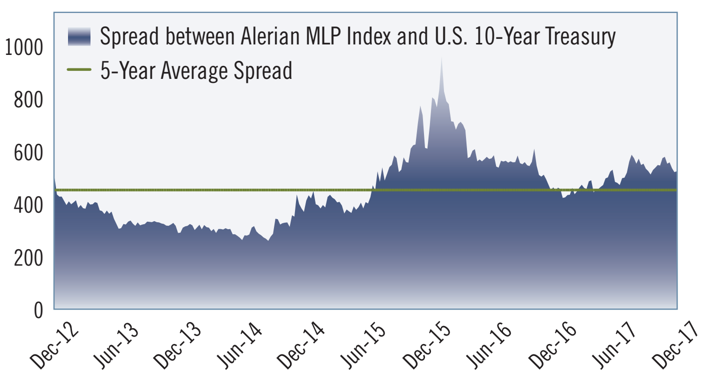
Last quarter, we questioned whether poor utility performance in September caused by rising rates was a harbinger of things to come. Utilities responded with solid performance in October and November, but finally succumbed in December. The final month of 2017 saw U.S. utilities (as measured by the S&P 500®

Utilities Index) fall over 6% and European utilities (as measured by the Bloomberg European Utility Index) fall over 4%. Utilities had to contend with more than just rising interest rates. In the U.S., tax reform was viewed negatively for utilities since they are required to pass on the benefits of lower tax rates to customers. In addition, California wildfires and regulatory reviews in the U.K. significantly impacted utilities in both regions.

Energy & MLPs – Within the energy space, master limited partnerships (MLPs) picked up where they left off in the third quarter. Despite steadily rising oil prices, MLPs fell by over 9% on a total return basis in the fourth quarter, as measured by the Alerian MLP Index (AMZ), until the last day of November when, in a big reversal, MLPs jumped 4.1% on the day and carried this momentum into December, rising another 4.7%. In the end, MLPs finished down 1.0% for the quarter and 6.5% for the year—a notable contrast to broader stock market gains—but hopefully the year-end rally bodes well for the asset class in 2018.

It was frustrating to witness the correlation between oil and MLPs break down just as oil started to move meaningfully higher. After gaining over $5 during the third quarter to close at $51.67 a barrel, oil jumped again in the fourth quarter, closing the year at $60.42. Drivers of this 16.9% price move were the extension of OPEC production cuts through 2018, further tightening of global inventories, and ongoing geopolitical concerns in key oil-producing countries, including Venezuela, Iran, and Saudi Arabia.

MLP VALUATIONS AT ATTRACTIVE LEVELS



Sources: U.S. Treasury, Bloomberg, L.P.

Despite a hyperfocus on oil among MLP investors for the last two-plus years, the late-year oil rally did not lift MLP stocks as much as we expected. If, however, 2017 was simply a transition year for MLPs, then the asset class should benefit as we move into 2018. A number of MLPs undertook important steps to fix their balance sheets, either through restructurings or dividend cuts, and those companies are now better positioned. At the end of the day, the performance of MLPs in 2018 will depend on a change in sentiment. If investors believe the "All Clear" signal has sounded, then 2018 should be a promising year.

OUTLOOK

We maintain our positive outlook for global markets. Major central banks continue their discussions about the need to tighten, but for now monetary policy remains loose and supportive. 2018 should see at least one more rate hike in the U.S. by the Federal Reserve and the markets seem to have accepted the new Fed Chair appointed by President Trump. Solid economic growth is evident across most regions. Inflation remains in check—at least for now—although there are some signs of its return. The biggest issue we see is simply that stocks have had their run and valuations are quite full, however, investors are positively inclined towards the earnings bump the new tax law will provide.

We hold firm in our views on the current economic cycle, and our comments from last quarter bear repeating. The data collected by the National Bureau of Economic Research (NBER) suggests that despite the length of the current expansion, we are not even close to a recession, and whatever past notions we have of typical cycles may not apply this time around. As a reminder, NBER's definition of a recession is much more involved than the relatively simplistic rule of thumb many people use – two consecutive quarters of negative GDP growth. NBER research focuses on four time series, although not exclusively, to determine when a recession has taken place: industrial production, total nonfarm employees, real personal income, and real manufacturing & trade sales.

Outside of the U.S., Japan is a country to watch. We expect to see strengthening trends in corporate earnings, share buybacks, and dividend payouts, accommodative central bank policies, and a lessening of investor apathy toward the country. Valuations continue to look appealing in the broader Japanese market even after the 2017 rally.

On the other side of the world, the meandering path of Britain's Brexit negotiations has progressed increasingly in a more positive direction. Quite suddenly, the outlines of what Brexit will look like are fast emerging from the gloom: a Canadian-style trade deal, equivalency for financial services, a transition arrangement, a chunky "divorce bill," and (hopefully) a technological solution to the Irish border problem. The latter is perfectly practical and a political willingness to move on to trade talks appears to have increased significantly in recent weeks. This is a positive development we will continue to monitor.

As a fundamentally driven global equity boutique, our investment teams remain focused on executing on our core values of quality, reliability, and specialization in the highly targeted investment strategies on which we have built our reputation. As always, we thank our clients for their continued support.

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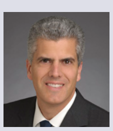
Authored by:



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Duff & Phelps Investment Management offers specialty investment strategies that strive to enhance outcomes for clients. The product mix, which includes Global Listed Infrastructure, Global Real Estate, Energy & MLPs, and International Equity, developed from the in-depth fundamental research expertise in income-producing securities that the firm first established back in 1932.

S&P 500® Index: A free-float market capitalization-weighted index of 500 of the largest U.S. companies, which is calculated on a total return basis with dividends reinvested. FTSE 100 Index: a market-capitalization weighted index of UK-listed blue chip companies. Nikkei 225 Index: a price-weighted equity index consisting of 225 Japanese stocks listed in the 1st section of the Tokyo Stock Exchange. Hang Seng Index: Most widely quoted gauge of the Hong Kong stock market, includes the largest and most liquid stocks listed on the Main Board of the Stock Exchange of Hong Kong. FTSE EPRA NAREIT Developed Index (net): A free-float market capitalization-weighted index measuring publicly traded equity REITs and listed property companies from developed markets, which meet minimum size and liquidity requirements. FTSE Developed Core Infrastructure 50/50 Index: A free float-adjusted market capitalization weighted index that gives participants an industry-defined interpretation of developed market infrastructure companies and adjusts the exposure to certain infrastructure subsectors. Constituent weights: 50% Utilities, 30% Transportation (including capping 7.5% for railroads/railways), and a 20% mix of other sectors including pipelines, satellites, and telecommunication towers. Alerian MLP Index (AMZ): A composite of the 50 most prominent energy MLPs, which is calculated using a float-adjusted, capitalization-weighted methodology. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.