

Emerging Markets Strategy

QUARTERLY COMMENTARY | MARCH 2021



Our Global Listed Infrastructure funds underperformed infrastructure indices, which marginally underperformed equities for the quarter, largely due to higher weights in rate-sensitive stocks among infrastructure sectors.

The quarter saw rapid increases in both bond rates and inflation expectations as the economic recovery continued, strongly aided by a quickening vaccine rollout and massive levels of government stimulus. Consensus growth expectations were revised higher during the quarter. Inflation is expected to increase in the coming months due to transitory effects before returning to a more normalised rate. Bond rates are expected to increase in a more orderly path for the remainder of 2021 before settling around 2.0%–2.5% for the U.S. 10-year Treasury note. Emerging markets are generally under pressure from rising U.S. bond yields.

Vaccine rollouts continued to accelerate in many regions, driving optimism about reductions in mobility restrictions, despite increasing COVID-19 cases in regions such as Europe. Reductions in mobility restrictions are expected to impact the second half of 2021 and are required for the recovery of the services sector, which lags the largely recovered goods sector. This will likely drive further increases in revenues for transport assets.

Stimulus remained plentiful, particularly in the U.S. with Biden's \$1.9 trillion stimulus plan approved during the quarter and closely followed by a proposal for a \$2 trillion infrastructure bill, broadly defined. Strong levels of stimulus will continue to support economic growth.

Portfolio Performance

On a regional basis, Asia Pacific was the top contributor to quarterly performance (+3.95%) of which Indian rail operator Container Corporation of India (+1.74%) and energy infrastructure company Gujarat Gas (+1.69%) were the lead performers.

Container Corporation of India (CONCOR) is India's largest container train operator, with 75% market share. With privatisation remaining on the table along with near-term commissioning of the DFC (Dedicated Freight Corner), shares have performed well.

Gujarat Gas Limited (GUJGA) is a city gas distribution business. It is one of India's leading natural gas distribution companies, processing and distributing compressed natural gas and liquefied petroleum gas to transport, domestic, commercial and industrial consumers. Investors were positive on Gujarat Gas's resilient results despite a strong spike in gas prices.

Elsewhere in the Asia Pacific region, Chinese gas utility ENN Energy (+0.38%) also performed well.

ENN Energy is one of the major listed gas distribution utilities in China with a nationwide portfolio of last-mile city gas concessions and the longest operating track record among the listed players. Shares were up on back of solid FY20 results and reassuring FY21 guidance. The parent company also announced a share incentive plan for the board and management, which helped sentiment.

Chinese airport operator Shanghai International Airport (-0.68%) was the largest detractor from quarterly performance.

Shanghai International Airport (SHIA) is the operator of Shanghai Pudong International Airport, the major airport of Shanghai and the second largest in China in terms of traffic. At present, SHIA's asset base consists of two terminals (T1/T2) and two new satellite terminals (S1/S2), four runways, and facilities for serving passengers and handling cargo. Shares wavered mainly due to the announced outcome of negotiations with SHIA's duty-free shops (DFS) operator being weaker than expected in January.

All returns are in local currency.

Positioning and Outlook

This Strategy is invested in high-quality companies benefiting from structural drivers, with strong cash flow and dividend yields. We have strong conviction in the long-term opportunities within emerging markets listed infrastructure. At the regional level, the Strategy is split between Asia Pacific EM (66%) and Latin America (30%), with the remainder in cash. At the sector level, the Strategy is split between economically sensitive user pays infrastructure (55%) and regulated and contracted utilities (41%).

For the **Global Infrastructure Emerging Markets Strategy**, the primary quantitative tool in portfolio construction is Excess Return, on which our stock-ranking system is based. As such, driven by valuation, the Investment Committee initiated a position in Chinese renewables utility Xinyi Energy Holdings Limited.

The fund also used the opportunity to crystallise some gains by exiting Brazilian electric utility TAESA and Mexican energy infrastructure company IEnova.

Quarterly Stock Highlight

This quarter we review Indian energy infrastructure company Gujarat State Petronet (GSPL).

GSPL operates a gas pipeline network in Gujarat, India.

All of the company's existing pipeline revenues are under a fully regulated guaranteed return model, and all new assets are to be awarded based on competitive bidding. The tariff is set by the Petroleum and Natural Gas Regulatory Board and is reviewed every five years.

We believe that GSPL is well-positioned to benefit from increasing pipeline utilisation. While the company's utilisation is currently at 50%, we expect these volumes to double over the next five years as liquid natural gas (LNG) supply constraints will be alleviated via the establishment of numerous new LNG import terminals and expansion of existing terminals. GSPL is also leveraged to growth in city gas distribution through its stake in Gujarat Gas.

Nick Langley, Shane Hurst, Charles Hamieh and David Pow Investment Committee Members



Nick Langley



Shane Hurst



Charles Hamieh



David Pow

Important Information

This material has been prepared for investment professionals, qualified investors and investment advisors only. This material presents information in a manner which is not suitable for retail investors and ClearBridge Investments Limited does not authorise the provision of this material to retail investors.

While the information contained in this document has been prepared with all reasonable care, ClearBridge Investments Limited and its related companies ("ClearBridge") accept no responsibility or liability for any errors, omissions or misstatements however caused. Any views expressed in this material are given as of the date of publication and such views are subject to change at any time.

This information is not personal advice. It has been prepared without taking account of individual objectives, financial situations or needs. Where an investment product is mentioned, potential investors should seek independent advice as to the suitability of the product to their investment needs. Reference to shares in a particular company, is not a recommendation to buy, sell or hold that stock. Investors should be aware that past performance is not indicative of future performance.

This information may contain forecasts, including in regard to targets, expected returns, PE ratios and dividend yields. Any such statements are based upon research undertaken by the ClearBridge investment team. This research incorporates ClearBridge's reasonable assumptions and beliefs concerning future developments and their potential effect but are subject to risks and uncertainties that may be beyond ClearBridge's control. Returns can be volatile, reflecting rises and falls in the value of underlying investments. Accordingly, ClearBridge does not provide any assurance or guarantee that future developments will be aligned with ClearBridge's expectations, and actual results may differ materially from those expected by ClearBridge at the time of writing.

The distribution of this document may be restricted in your jurisdiction. This document does not constitute an offer or solicitation in any jurisdiction in which to make such an offer or solicitation would be unlawful. It is your responsibility to ensure that any such product, security, service or investment outlined is available in your jurisdiction.

Issued and approved outside Canada and the United States of America by ClearBridge Investments Limited ("CIL"), registered office Level 13, 35 Clarence Street, Sydney, NSW 2000, Australia (ABN 84 119 339 052; AFSL 307 727).

In Canada and the United States of America, issued and approved by ClearBridge RARE Infrastructure (North America) Pty Ltd ("CBI RINA"), registered office Level 13, 35 Clarence Street, Sydney, NSW 2000, Australia (ACN 138 069 191). Neither CIL nor CBI RINA are registered as a dealer in any province in Canada. CIL and CBI RINA are not offering the securities of any investment fund that may be described in the materials in Canada or the United States. This material has not been approved or verified by the SEC or the OSC.

ClearBridge is wholly, indirectly owned by Franklin Resources, Inc., and part of ClearBridge Investments, LLC.

