

# Value Strategy

QUARTERLY COMMENTARY | JUNE 2021



Our global listed infrastructure funds performed within the range of infrastructure indices, which underperformed global equities for the month.

Economic activity continues to rebound strongly with expected upgrades to consensus earnings and economic growth forecasts.

COVID-19 vaccine rollouts gained pace in many regions, although mobility restrictions remained significant as a result of the new Delta variant. With the combined effect of new restrictions and the continuation of vaccinations, the rate of confirmed cases globally has started to decrease.

Government policy remained supportive, with continued implementation of previously announced stimulus. Bond rates declined slightly in June, post the June FOMC meeting as the Fed continues with the view that the recent inflation spike is largely transitory, with upside risk able to be addressed through potential tapering discussions later in the year. Strong labour and wage data, combined with large increases in commodity prices, highlight the risk of inflation to the upside. However, significant slack in the labour markets is expected to contain inflation risk. Markets performed solidly on the back of the strong economic data and confidence that the Fed will act accordingly to contain inflation.

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## Portfolio Performance

On a regional basis, North America was the top contributor to quarterly performance (+2.21%), of which U.S. energy infrastructure company Cheniere Energy (+0.78%), U.S. communications company American Tower (+0.43%) and Canadian energy infrastructure company Enbridge (+0.38%) were the lead performers.

Cheniere Energy owns and operates U.S. liquefied natural gas (LNG) export facilities. Cheniere performed in line with the U.S. pipeline sector, as the current energy market remains constructive.

American Tower is a leading independent owner, operator and developer of wireless and broadcast communications infrastructure. The company has 41,000 sites in the U.S. and a further 139,000 sites across 19 countries, predominantly emerging markets (India 75k, Latin America 40k and Africa 18k). American Tower performed well after the U.S. network operators announced plans to deploy 5G spectrum, with investment much larger and much sooner than the market was anticipating.

Enbridge owns and operates one of the largest oil and gas pipeline networks in North America. The company also owns regulated gas distribution utilities in Ontario, Canada. Enbridge's Line 3 Replacement Project received a favourable court ruling regarding the adequacy of its Environmental Impact Statement. This significantly lowers the execution risk for the project and enables the company to place the project into service later in the year.

Turning to Western Europe, Spanish communications company Cellnex Telecom also performed strongly, contributing +0.58% to quarterly performance.

Cellnex is Europe's leading independent infrastructure owner and operator for wireless telecommunication. Cellnex share prices increased during the quarter as the overhang from capital requirements dissipated, bond rates stabilised and the focus on M&A opportunities returned with Deutsche Telekom highlighting the willingness to sell their tower portfolio.

U.S. renewables utility Brookfield Renewable Corporation (-0.24%) was the largest detractor from quarterly performance.

Brookfield Renewable is a pure-play renewables operator and developer headquartered in Canada, focused on international hydro, solar, wind and storage technology. As more private and public institutions announce ambitious carbon reduction initiatives, Brookfield Renewable's globally diversified, multi-technology renewables business makes Brookfield an attractive partner. Brookfield's development pipeline stands at 18,000 MWs, providing confidence the company can meet its targeted double-digit cashflow growth through to 2025. Shares wavered along with broader weakness across the renewables sector.

All returns are in local currency.

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## Positioning and Outlook

On a regional level, the Strategy's largest exposure is in the U.S. & Canada (55%) and consists of exposure to regulated and contracted utilities (30%) and economically sensitive user pays infrastructure (25%).

For the **Global Infrastructure Value 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 positions in Canadian rail operator Canadian National Railway and U.S. electric utility CenterPoint Energy.

The fund also used the opportunity to crystallise some gains by exiting U.S. electric utility Pinnacle West, U.S. renewables utility NextEra Energy Partners and Italian toll road operator Atlantia.

## Quarterly Stock Highlight

This quarter we review U.S. communications company Crown Castle International.

Crown Castle is the leading independent owner and operator of wireless communications infrastructure in the U.S. with a portfolio of approximately 40,000 towers.

Crown Castle has a strong customer base, which includes the world's major wireless communication service providers, such as AT&T, T-Mobile and Verizon Wireless. These large carriers have long-term lease agreements with initial terms of 5–10 years, multiple renewal periods, strict termination terms and inflation-adjusted escalations of the rental prices. These factors will likely contribute to stable revenues over long periods.

Crown Castle continues to provide attractive risk-adjusted returns as U.S. wireless carriers continue their investments in mobile technologies. The company is also a beneficiary of increased carrier investment in small cells, which are now complementing traditional macro towers. Small cells enhance data capacity in throughput-constrained locations such as malls and stadiums.

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