

Income Strategy

MONTHLY COMMENTARY

| JULY 2022



Our global listed infrastructure strategies outperformed infrastructure benchmarks and underperformed global equities for the month.

The outlook for interest rates and inflation continues to cause volatility in markets as investors digest expectations of a global slowdown in growth in conjunction with central bank tightening, with the expectation that inflation and central bank hawkishness is close to its peak.

Inflation remains a large risk to economic growth as increasing energy prices and a higher cost of living pressure the average consumer. The probability of a recession continues to increase, as consensus expectations move closer to a recession as a base case.

Portfolio Performance

On a regional basis, Western Europe was the top contributor to monthly performance (+2.42%), of which U.K. electric utility SSE (+0.50%), Portuguese renewables utility Energias de Portugal (+0.44%) and French rail operator Getlink (+0.40%) were the lead performers.

SSE is a diversified energy utility headquartered in Scotland, U.K. It is vertically integrated, operating over the entire supply chain in the U.K., with generation (including hydro, wind, CCGT), electricity networks and retail businesses (primarily B2B). It is the U.K.'s largest renewable energy generator. The share price of SSE rallied during the month due to lessened concern over a potential windfall tax on electricity generators in U.K.

Energias de Portugal (EDP) is an integrated utility based in Iberia, operating electricity distribution, generation and energy supply businesses. It has a growing exposure to global renewables, through its 83%-owned subsidiary EDPR, mostly in onshore wind farms, and operates electricity distribution and generation businesses in Brazil through its 50%-owned EDP Brasil. EDP's share price rose with the strong earning results reported for the second quarter, and management's reiteration of the company's full-year guidance, both of which were welcomed by the market.

Getlink is a French rail company that owns the concession over the Channel Tunnel rail link between the U.K. and France. Getlink's tunnel traffic continues to recover following the easing of lockdowns across the U.K. and Europe, and Getlink's Eleclink project was finally placed into service in May and began generating cash flow.

Turning to North America, U.S. renewables utility NextEra Energy Partners (+0.46%) also performed well during the month.

NextEra Energy Partners (NEP) is a growth-oriented contracted renewables company formed by its sponsor and general partner NextEra Energy (NEE) to own, operate and acquire contracted renewable energy generation assets located in North America. NextEra Energy Partners' share price rose along with progress on the proposed Inflation Reduction Act, which would include support for renewable energy.

Australian toll road operator Atlas Arteria (-0.15%) was the largest detractor from monthly performance.

Atlas Arteria is a toll road owner and operator with its key assets being a 31% stake in the APRR, AREA and ADELAC concessions in France and 100% ownership of Dulles Greenway in Virginia, in the U.S. In addition, it owns the Warnow Tunnel in Germany. The French concessions represent ~75% of the company's value. Atlas Arteria's share price declined in July as IFM announced it was ceasing talks with the company with respect to a potential takeover of Atlas Arteria securities. IFM did, however, reserve the right to recommence discussions.

All returns are in local currency.

Positioning and Outlook

On a regional level, the strategy's largest exposure is in the U.S. and Canada (39%) and consists of exposure to regulated and contracted utilities (29%) and economically sensitive user pays infrastructure (10%).

For the **Global Infrastructure Income Strategy**, the primary quantitative tool in portfolio construction is excess return, on which our stock-ranking system is based. The Global Infrastructure Income Strategy also uses yield quality as a secondary measure. As such, driven by valuation, the Investment Committee used the opportunity to crystallise some gains by exiting French communications company Eutelsat Communications, Mexican electric utility CFE Capital, Mexican airport operator Grupo Aeropuertos Del Sureste and U.S. electric utility Constellation Energy.

Monthly Stock Highlight

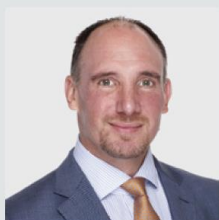
This month we review Spanish electric utility Iberdrola.

Iberdrola is a multinational integrated electric utility company headquartered in Spain. Iberdrola is engaged in energy networks, renewables and wholesale and retail operations. The company has expanded internationally with operations in the U.K. (via Scottish Power), the U.S. (via Avangrid), Brazil (via Neoenergia) and Mexico.

Iberdrola's asset base consists of a regulated energy network business and one of the world's largest portfolios of wind energy assets, which are under long-term contracts — altogether representing over 80% of its earnings and future investments. As a result, Iberdrola's predictable long-term cash flows satisfy our definition of infrastructure.

Iberdrola was one of the first companies to recognise the scope of the opportunity in renewable generation. Through sustained investment, it has become one of the largest wind power operators in the world, with over 16 GW spread across Spain, the U.K., the U.S. and other locations. Additionally, Iberdrola has a clear strategy with a large investment program over the next five years, the bulk of which will be in low-risk regulated energy networks and renewables, with decreasing exposure to market-exposed generation and supply. This will likely provide steady long-term growth of cash flows.

Nick Langley, Shane Hurst, Charles Hamieh and Daniel Chu Investment Committee Members



Nick Langley



Shane Hurst



Charles Hamieh



Daniel Chu

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 Investments (North America) Pty Ltd ("CINA"), registered office Level 13, 35 Clarence Street, Sydney, NSW 2000, Australia (ACN 138 069 191). Neither CIL nor CINA are registered as a dealer in any province in Canada. CIL and CINA 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, OSC or the Autorité des marchés financiers.

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