

Income Strategy

QUARTERLY COMMENTARY | JUNE 2021



Our global listed infrastructure strategy 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.

Portfolio Performance

On a regional basis, North America was the top contributor to quarterly performance (+1.33%), of which U.S. communications company Crown Castle (+0.48%) and Canadian energy infrastructure company Enbridge (+0.36%) were the lead performers.

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 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, U.K. electric utility National Grid contributed +0.34% to quarterly performance.

National Grid is one of the world's largest publicly owned utilities, focused on transmission and distribution activities in electricity and gas. It owns and operates regulated electricity and gas network assets in both the U.K. and the U.S., which contribute about 95% of its earnings and equity value. National Grid's share price increased during the quarter following the announcement of its agreement to acquire WPD, a group of U.K. electricity distribution businesses, and sell part of its U.S. assets. It also announced its intention to dispose of a majority stake in its U.K. gas transmission business.

Chilean water company Aguas Andinas (-0.54%) was the largest detractor from monthly performance.

Aguas Andinas supplies drinking water and provides sewerage and treatment services to residential, commercial and industrial customers in Chile. Aguas was weak during the quarter as negative results coming out of the constitutional convention vote signaled significant weakness for the country's current conservative regime. The results of the vote highlighted the potential for additional political turbulence in the lead-up to the presidential elections.

All returns are in local currency.



Positioning and Outlook

On a regional level, the Strategy's largest exposure is in the U.S. & Canada (37%) and consists of exposure to regulated and contracted utilities (28%) and economically sensitive user pays infrastructure (9%).

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 initiated positions in U.K. water company Pennon and Spanish electric utility Iberdrola.

The strategy also used the opportunity to crystallise some gains by exiting U.S. infrastructure company Brookfield Infrastructure Partners and Canadian electric utility Emera. The strategy also exited Aguas Andinas due to large political turbulence in Chile.

Quarterly Stock Highlight

This quarter we review Australian toll road operator Atlas Arteria (ALX).

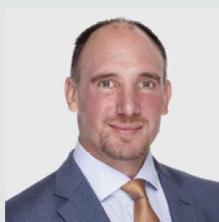
Atlas Arteria is a toll road owner and operator with its key assets being a 31% stake in the APRR, AREA and ADELAC concessions in France and 100% ownership of Dulles Greenway in Virginia, in the U.S.. In addition, it owns the Warnow Tunnel in Germany. The French concessions represent ~75% of the company's value.

Atlas Arteria is now an independently managed entity, having reached an agreement to remove Macquarie as external manager for both Atlas Arteria and APRR over recent years. This makes Atlas Arteria a more attractive investment with control of operations, removal of management and performance fees, as well as the removal of pre-emptive rights on APRR stakes.

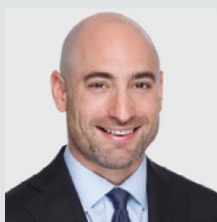
Atlas Arteria has a strongly growing dividend profile as Dulles Greenway nears the end of dividend lock-up. The mature French concessions are over 2,000 km in length and provide moderate EBITDA growth supported by strong cost control, traffic growth and toll increases at 0.7x CPI plus further uplifts for network enhancements. We expect APRR to continue to negotiate network enhancements resulting in concession extensions or toll increases. The APRR concession ends in 2035.

Atlas Arteria has an experienced management team with a long track record in toll road and infrastructure investment, making them well placed to further optimise the Atlas Arteria portfolio.

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