

Income Strategy

QUARTERLY COMMENTARY | DECEMBER 2021



The ClearBridge Global Infrastructure Income Strategy outperformed the S&P Global Infrastructure Index during the fourth quarter as well as global equities as represented by the MSCI ACWI.

Macroeconomic factors continued to focus on the outlook for Fed policy given the current environment of higher inflation, with market expectations for a faster pace of interest rate hikes compared to previous months.

The spread of the Omicron variant has started to impact mobility globally, although the severity of the new variant seems milder than previous strains. Markets remain volatile in response.

Ongoing COVID-19 disruption, supply chain issues and high inflation have the potential to delay the full economic recovery; however, markets are not expecting a recession to be a near-term probability.

Portfolio Performance

On a regional basis, the U.S. and Canada region was the top contributor to quarterly performance (+4.07%), of which U.S. electric utility Exelon (+1.02%) and U.S. renewables utility Clearway Energy (+0.92%) were the lead performers.

Exelon is a U.S. energy provider with one of the cleanest and lowest-cost power generation fleets. Its utilities serve millions of electric and gas customers across Delaware, Illinois, Maryland, New Jersey, Pennsylvania and the District of Columbia. The share price of Exelon rose as the company received approvals for its anticipated spinoff, in addition to broader supportive datapoints around nuclear support.

Clearway Energy primarily owns and operates contracted renewable generation assets in the U.S. It also owns and operates conventional generation and thermal infrastructure assets. Clearway Energy's share price continued to benefit from the completed sale of its thermal assets, which was above expectations, generating USD\$1.3 billion in incremental proceeds. Additionally, there was optimism surrounding a stimulus bill pass-through which contains renewables subsidies.

Turning to Western Europe, U.K. electric utility National Grid (+0.97%) and Spanish electric utility Iberdrola (+0.47%) also performed well.

National Grid is one of the world's largest publicly owned utilities, focused on transmission and distribution activities in electricity and gas. National Grid performed strongly during the quarter as the business continued to de-risk following prior regulatory decisions and significant M&A. The company also benefited from falling real rates and a solid set of half-year results and strong Investor Day presentations.

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. The share price rallied as political risks receded after the gas clawback measures proposed by the Spanish government in September scaled back significantly.

Spanish airport operator AENA (-0.24%) was the largest detractor from quarterly performance.

AENA is the monopoly owner of the Spanish airport system, operating the 46 airports under a dual-till regulatory regime. AENA also manages London Luton Airport, with a 51% stake. AENA's share price fell following the emergence of the Omicron variant and the uncertain outlook for travel.

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 (44%) and consists of exposure to regulated and contracted utilities (31%) and economically sensitive user pays infrastructure (13%).

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 Mexican airport operator Grupo Aeropuertos Del Sureste, U.K. water company United Utilities, Canadian infrastructure company Brookfield Infrastructure Partners and U.S. electric utility FirstEnergy.

The strategy also used the opportunity to crystallise some gains by exiting French toll road Eiffage, Australian airport operator Sydney Airport and Australian electric utility AusNet Services.

Quarterly Stock Highlight

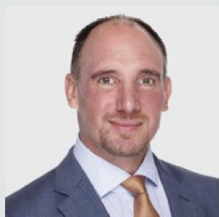
This quarter we review U.S. communications company Crown Castle.

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.

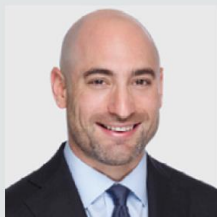
Crown Castle has a strong customer base, which includes the world's major wireless communication service providers, such as AT&T, T-Mobile and Verizon Wireless. These large carriers have long-term lease agreements with initial terms of 5–10 years, multiple renewal periods, strict termination terms and 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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