



Global Infrastructure Income Strategy



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Key Takeaways

- ▶ Higher oil prices, renewed monetary tightening and rising long-term yields pressured listed infrastructure, particularly utilities and toll roads, while rails and midstream companies proved more resilient.
- ▶ Portfolio activity emphasized attractive income, visible cash flows and company-specific catalysts through new positions in Naturgy, West Japan Railway, Crown Castle and SSE, funded by sales that reduced execution, regulatory and liability risks.
- ▶ We remain constructive on infrastructure's long-term outlook, supported by regulated rate-base growth, electrification, grid investment and data center demand, with inflation-linked tariffs and contractual escalators helping preserve real asset values over time.

Market Overview

Listed infrastructure trailed global equities in the third quarter, with major infrastructure indexes delivering negative returns and equities making modest gains. Higher oil prices stemming from tensions in the Middle East have boosted inflation expectations and contributed to a renewed monetary tightening cycle, with the U.S. Federal Reserve, European Central Bank and the Bank of Japan raising their policy rates in September and higher long-term yields pressuring rate-sensitive sectors such as infrastructure.

Utilities were broadly weaker as long-term bond yields rose sharply. Data center enthusiasm also became more selective in the context of greater focus on customer affordability and regulatory permitting, particularly as the U.S. enters its midterm election cycle. Toll roads were also among bottom performers due to rate pressure and higher fuel costs representing a headwind to traffic volumes, particularly those assets more exposed to longer-distance leisure-based travel.

North American rails were relatively resilient, meanwhile, helped by improving volumes, pricing and margins. Pipeline and midstream stocks showed some relative strength as well: fundamentals were strong, supported by record volumes, project growth, LNG and data-center demand.

Performance Overview

On a regional basis, Asia Pacific was the top contributor for the quarter, with Australian gas utility APA Group the lead performer. APA is Australia's largest gas pipeline operator. It owns and manages gas

transmission pipelines in all states of mainland Australia, as well as gas storage and processing, contracted power generation and renewable energy production. APA outperformed, supported by strong quarterly results and the announcement of new projects that further strengthened its growth pipeline.

Turning to Latin America, Brazilian electric utility Companhia Paranaense de Energia (Copel) also performed well. Copel delivered a strong quarter, supported by solid operating results, a favorable regulatory asset base review and shifting investor sentiment around the upcoming Brazilian federal election.

U.S. renewables company Brookfield Renewable and French electric utility Engie were the largest detractors for the quarter. Brookfield Renewable is a pure-play renewables operator and developer headquartered in Canada and focused on international hydro, solar, wind and storage technology. Brookfield's share price was negatively impacted by its sensitivity to higher interest rates, as global bond yields moved higher during the period. However, as more private and public institutions announce ambitious carbon reduction initiatives, Brookfield's globally diversified, multi-technology renewables business makes it an attractive partner. Its development pipeline currently stands at 85 GW, providing confidence that the company can meet its targeted double-digit cash flow growth through to 2030. Brookfield also has a stake in Westinghouse and benefits from a potential buildout cycle from nuclear power.

Engie is a global integrated energy company operating across 30 countries, with activities spanning renewable power generation, battery storage, energy networks, energy services and supply. It owns and operates large-scale, long-life assets across Europe, the Americas and EMEA, supplying power, gas and energy solutions to municipalities, corporates and households, while increasingly focusing on renewables and flexibility. Engie's share price was negatively impacted by increased investor concerns surrounding French sovereign risk.

Portfolio Positioning

During the quarter, we repositioned the portfolio toward companies offering attractive valuations, visible cash flows and identifiable catalysts. We initiated a position in Naturgy, a diversified Spanish energy company, whose sector-leading yield, strong balance sheet, improving governance and near-term earnings visibility create an attractive income profile. We purchased West Japan Railway, a major passenger railway operator in western Japan, at a valuation we believe fully reflects inflation and geopolitical concerns; strong passenger traffic, a 3.5% dividend yield and the potential for a fare increase in 2027 provide upside. We also added Crown Castle, a leading U.S. owner of wireless towers, at an attractive valuation, as we believe concerns about satellite disruption are overstated. In addition, we initiated a position in SSE, a diversified U.K. utility and the country's largest renewable energy generator.

We funded these additions by exiting ONEOK, a North American natural gas midstream operator, after it underperformed our expectations for

capturing synergies from recent acquisitions. We sold Edison International, the parent of California electric utility Southern California Edison, after the state failed to pass reforms that would have limited utilities' future wildfire liabilities and shareholder exposure. We also took profits in Enbridge, a major North American pipeline operator and Canadian gas utility, and reallocated the capital toward opportunities offering more compelling prospective returns. Overall, the activity increased exposure to attractive income, improving fundamentals and company-specific catalysts while reducing execution, regulatory and liability risks.

Outlook

We remain constructive on the medium- and long-term outlook for infrastructure and remain defensively positioned with a tilt toward regulated utilities. Their fundamental growth outlook generally remains intact, with rate-base growth, electrification, grid investment and data center demand still supporting multi-year earnings growth. Rising inflation and bond yields can initially pressure listed infrastructure valuations as higher fixed-income yields compete with infrastructure dividends and raise discount rates. This market adjustment generally precedes the fundamental response. Regulated utilities recover prudently incurred costs through customer tariffs, while regulators periodically recalibrate allowed returns to reflect prevailing financing conditions.

User-pays assets such as toll roads, airports and pipelines likewise often benefit from inflation-linked tariffs or contractual escalators. Although these mechanisms operate with lags ranging from several months to several years, they help preserve real asset values and support higher nominal earnings and dividends over time. Consequently, infrastructure share prices may weaken at the onset of a rate shock even as the conditions for stronger future allowed earnings are being established.

Portfolio Highlights

We believe an absolute return, inflation-linked benchmark is the most appropriate primary measure against which to evaluate the long-term performance of our infrastructure strategies. The approach ensures the focus of portfolio construction remains on delivering consistent absolute real returns over the long term.

On an absolute basis, the Strategy saw positive contributions from two of 10 sectors in which it was invested in the quarter (out of 10), with water the top contributor. Electric, renewables and energy infrastructure detracted the most.

Relative to the FTSE Global Core Infrastructure 50/50 Index and on a local returns basis, stock selection in gas, an overweight to water utilities and an underweight to electric utilities contributed to performance. Conversely, stock selection in energy infrastructure and toll roads, an overweight to renewables, an underweight to rails and a lack of exposure to ports detracted from performance.

On an individual stock basis, the top contributors to absolute returns in the quarter were APA Group, Companhia Paranaense De Energia,

Severn Trent, RWE and Naturgy Energy Group. The main detractors were Engie, Brookfield Renewable, Entergy, DT Midstream and Edison International.

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