Value Strategy

MONTHLY COMMENTARY | MAY 2022

Our global listed infrastructure strategies underperformed infrastructure benchmarks and outperformed 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 that has been more hawkish than investors initially expected.

Inflation remains a large risk to economic growth as increasing energy and other costs of living expenses put pressure on the average consumer. The probability of a recession is increasing, although we still do not consider a recession the base case.

Portfolio Performance

On a regional basis, the U.S. and Canada was the top contributor to monthly performance (+1.61%), of which U.S. renewables utility Clearway Energy (+0.37%), U.S. electric utility NextEra Energy (+0.31%) and U.S. communications company American Tower (+0.22%) were the lead performers.

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. Shares rose on the announcement that TotalEnergies and Global Infrastructure Partners are partnering to acquire 50% of Clearway, helping to provide a longer runway for growth projects.

NextEra is an integrated utility business with a regulated utility operating in Florida and is the largest wind business in the U.S. NextEra's regulated business includes Florida Power & Light, which serves nine million people in the State of Florida. NextEra rose in line with renewables, which recovered from weakness in April, partially due to increased confidence in a positive outcome from the U.S. Department of Energy AD/CVD investigation, due in August 2022.

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 (75,000 in India, 40,000 in Latin America and 18,000 in Africa). American Tower outperformed as investors grew fearful of an impending recession and positioned portfolios in relatively economically insulated companies such as towers.

Turning to Western Europe, French rail operator Getlink (+0.21%) also performed well during the month.

Getlink is a French rail company that owns the concession over the Channel Tunnel rail link between the U.K. and France. Traffic recovery continues with the easing of restrictions. Separately, Getlink's electric transmission interconnector project, 'Eleclink', was successfully placed into service, providing another avenue for earnings growth.

U.S. rail operator Union Pacific (-0.22%) was the largest detractor from monthly performance.

Union Pacific is the largest listed railroad company in North America. Union Pacific was down in the month of May as fears of a recession adversely affected higher-beta stocks such as rails. This, combined with service issues stemming from labour shortages in the U.S., resulted in weaker performance for the month.

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 (59%) and consists of exposure to regulated and contracted utilities (36%) and economically sensitive user pays infrastructure (23%).

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 a position in U.S. water company American Water.

The strategy also used the opportunity to crystallise some gains by exiting U.K. electric utility National Grid and French toll road operator Eiffage.

Monthly Stock Highlight

This month we review Canadian energy infrastructure company Gibson Energy.

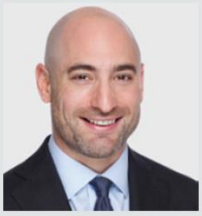
Gibson Energy is an oil midstream logistics provider in Western Canada and the U.S.

The core terminals business (which is backed by long-term take-or-pay contracts) represents three-quarters of EBITDA.

We are positive on Gibson's renewed focus on infrastructure and believe the non-core/non-infrastructure asset divestments strategy and increased capital allocation towards its core Hardisty/Edmonton terminals business will drive a re-rate in the valuation.

Nick Langley, Shane Hurst, Charles Hamieh and Simon Ong
Investment Committee Members

Nick Langley



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