

# Income Strategy

QUARTERLY COMMENTARY

| MARCH 2022



Our global listed infrastructure strategies outperformed global equities for the quarter.

The outlook for interest rates and inflation continue to cause volatility in markets following the conflict between Ukraine and Russia. We expect this volatility to continue as the market digests the impact on inflation and global growth.

Geopolitical risks, ongoing COVID-19 disruption, supply chain issues and high inflation continue to reduce expectations for economic growth, although a recession is still not considered the base case.

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## Portfolio Performance

On a regional basis, the U.S. and Canada region was the top contributor to quarterly performance (+4.54%), of which Canadian energy infrastructure company Pembina Pipeline (+0.85%), U.S. energy infrastructure company Williams Companies (+0.56%) and U.S. renewables utility Brookfield Renewables Partners (+0.52%) were the lead performers.

Pembina Pipeline provides transportation and midstream services for the energy industry in North America. The company announced the hire of Scott Burrows as permanent CEO, and Jaret Sprott as COO and reaffirmed its corporate strategy, boosting investor sentiment.

Williams owns and operates natural gas pipelines and associated midstream assets in the U.S. Shares were higher due to the strong natural gas pricing environment, causing midstream companies to continue to perform well.

Brookfield Renewables Partners is a pure-play renewables operator and developer headquartered in Canada, focused on international hydro, solar, wind and storage technology. As more private and public institutions announce ambitious carbon reduction initiatives, Brookfield Renewable's globally diversified, multi-technology renewables business makes Brookfield an attractive partner. Brookfield's development pipeline stands at 18,000 MWs, providing confidence the company can meet its targeted double-digit cashflow growth through to 2025. The market narrative around the energy transition and energy security, along with the price of fossil fuels increasing which has driven greater focus on switching to renewables, helped Brookfield shares in the quarter.

Turning to Western Europe, U.K. electric utility National Grid (+0.50%) also performed well during the quarter.

National Grid is one of the world's largest publicly owned utilities, focused on transmission and distribution activities in electricity and gas. National Grid's share price increased during the quarter as a result of several factors, including its defensive profile with inflation pass-through and limited exposure to underlying generation and the associated input cost inflation (e.g., gas). Additionally, it received final regulatory approvals for the sale of its Rhode Island business to PPL, de-risking that transaction.

U.S. communications company Crown Castle International (-0.42%) was the largest detractor from quarterly performance.

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 underperformed as investors, driven by rising interest rates, rotated away from defensive sectors into more value-orientated sectors.

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 (41%) and consists of exposure to regulated and contracted utilities (31%) 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 initiated positions in U.S. electric utility Constellation Energy and Canadian electric utility Emera.

The strategy also used the opportunity to crystallise some gains by exiting U.S. electric utility Exelon, Australian airport operator Sydney Airport and Canadian infrastructure company Brookfield Infrastructure Partners.

## Quarterly Stock Highlight

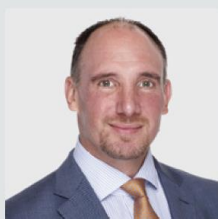
This quarter we review Canadian energy infrastructure company Enbridge.

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.

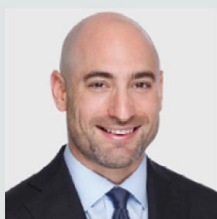
Enbridge is a high-quality company with premium infrastructure characteristics – a critical network of assets connecting key supply regions to demand regions across North America that are difficult to replicate, backed by long-term contracts with credit-worthy counterparties and a strong balance sheet.

Enbridge's business model has proven resilient through COVID-19. The company was still able to achieve pre-pandemic earnings guidance despite going through one of the worst oil market downturns, which saw a combined demand shock from COVID-19 lockdowns and a supply shock from the OPEC/Russia price war that drove oil prices negative temporarily. With cash flows battle-tested, this will likely give investors confidence in the security of the dividend. With Enbridge's largest ever capital investment project, Line 3 Replacement, now complete, we believe investors will turn their focus to the upcoming toll renegotiation process for their core oil pipeline network. We expect a constructive outcome to further drive shares higher.

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



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