



Global Infrastructure Value Strategy



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Key Takeaways

- ▶ Higher oil prices, renewed monetary tightening and rising bond yields pressured rate-sensitive infrastructure, while rails and midstream companies proved relatively resilient.
- ▶ Water and renewables holdings led contributions, but higher-rate sensitivity and project concerns weighed on Brookfield Renewable and Ferrovial, contributing to quarterly underperformance.
- ▶ We shifted toward discounted infrastructure assets with visible catalysts and remain defensively positioned in regulated utilities, supported by grid investment, electrification and data center demand.

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 sector specific basis, water companies were the top contributors for the quarter, with U.K. company Severn Trent the lead performer. Severn Trent provides water and wastewater services to the Midlands and Wales, serving over 4.5 million households and businesses. Shares rose as investor sentiment improved on expectations that the new

U.K. government would be less likely to intervene in the water and electricity sectors.

Elsewhere in Western Europe, German renewables company RWE also performed well. RWE is a leading power generation company with a growing focus on renewables and flexibility. It operates across Europe and the U.S., with a generation portfolio of 49 GW as of 2025, including 21 GW of renewables spanning offshore wind, onshore wind and solar. RWE owns and operates large-scale, long-life assets and supplies electricity primarily to wholesale markets and corporate offtakers, while actively transitioning its portfolio toward low-carbon generation. RWE's share price benefited from expectations that upcoming government tenders could provide opportunities to expand its portfolio through additional gas-fired generation capacity.

U.S. renewables company Brookfield Renewable and Spanish toll road operator Ferrovial 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.

Ferrovial operates and develops toll road concessions and airports globally. Ferrovial recently won the tender to develop and operate the I-24 managed lanes project in Nashville, Tennessee. The market remains skeptical of the project's economics, particularly given the circa \$25 billion headline value, which was significantly higher than competing bids. Ferrovial believes this figure is being misunderstood and plans to hold a dedicated investor session to clarify the concession structure and underlying economics. Management remains confident that the project offers an attractive internal rate of return, consistent with returns achieved across its successful toll road portfolio.

Portfolio Positioning

During the quarter, we repositioned the portfolio toward attractively valued infrastructure companies with visible earnings catalysts and favorable long-term demand. We initiated a position in Evergy, a Kansas-based electric utility, at an attractive valuation with potential upside from new large-load demand in its service territory. We also purchased American Tower, a leading global owner and operator of wireless communications infrastructure, following a material derating driven by higher interest rates, muted leasing activity and disruption concerns. We believe much of this downside is reflected in the valuation, while earnings growth should improve as these headwinds fade. We also initiated a position in SSE, a diversified U.K. utility and the country's largest renewable energy generator.

Meanwhile, we exited ONEOK, a midstream company focused on natural gas liquids and refined products, and initiated a position in peer DT Midstream, which has pure-play exposure to North American gas, where we see greater upside in earnings driven by the strong demand pull from the power and LNG export sectors.

We also exited our position in Vinci, as we saw a real risk of further taxation on long-distance infrastructure assets in France given the country's budget situation. The Transport Minister has proposed in the 2027 budget an increase of the tax on revenues from the current 4.6% to 12.2%, which, if passed, potentially could have a high-single-digit percentage impact to free cash flows. Following strong relative outperformance of Terna, and the risk of increased volatility from elections in Italy and uncertain regulatory outcomes, we took profits to allocate to other opportunities with more favorable risk-reward skew. We exited PG&E, a regulated California electric and gas utility, after the state failed to enact reforms limiting utilities' future wildfire liabilities. We also sold Algonquin Power & Utilities, a diversified regulated electric, gas and water utility serving North America, after progress toward improving its earned return on equity fell short of our expectations due to less favorable regulatory outcomes. Overall, the activity increased exposure to discounted assets with company-specific growth 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 multiyear 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 one of nine sectors in which it was invested in the quarter (out of 10), with water the top contributor. Electric and toll roads detracted.

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

On an individual stock basis, the top contributors to absolute returns in the quarter were RWE, Severn Trent, ONEOK, SSE and APA. The main detractors were Ferrovial, Brookfield Renewable, Entergy, Centerpoint Energy and Engie.

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