Value Strategy

QUARTERLY COMMENTARY | SEPTEMBER 2021

Our global listed infrastructure strategy outperformed the range of infrastructure indices as well as global equities for the quarter.

Economic activity continued to rebound amidst strong consensus expectations for corporate earnings and economic growth forecasts.

COVID-19 vaccine rollouts gained pace in many regions, helping ease mobility restrictions despite the new Delta variant causing an increase in confirmed cases.

Government policy remained supportive, with continued implementation of previously announced stimulus. Bond rates remained range bound to September following the September FOMC meeting; the Fed continues with the view that the recent inflation spike is largely transitory, with upside risk able to be addressed through possible tapering later in the year. Strong labour and wage data, combined with large increases in commodity prices, highlight the risk of inflation to the upside in the near term. However, significant slack in the labour markets is expected to contain inflation risk. Despite strong economic data, markets remained flat due to fears that supply chain bottlenecks and larger than expected commodity price increases would be headwinds to the recovery.

Portfolio Performance

On a regional basis, Asia Pacific was the top contributor to quarterly performance (+0.88%), of which Australian airport operator Sydney Airport (+0.91%) was the lead performer.

Sydney Airport manages Australia's largest airport at a strategic and operational level under a 99-year lease. Sydney Airport's share price increased during the quarter as a result of an indicative takeover offer that was revised several times to $8.75/share and resulted in the granting of due diligence by the board.

Turning to the U.S. and Canada region, U.S. electric utility Exelon (+0.41%), U.S. energy infrastructure company Cheniere (+0.38%) and U.S. renewables utility Clearway Energy (+0.27%) also performed well during the quarter.

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 benefitted from rising power prices and potential federal support for nuclear energy.

Cheniere Energy is an energy infrastructure company that owns and operates U.S. liquefied natural gas (LNG) export facilities. Strong quarterly results and the disclosure of capital allocation policies were positively received by the markets. In addition, continued supply and demand tightness in the LNG market created a favourable commodity price environment.

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 benefitted from the speculation that management may sell Clearway's thermal business, which was then confirmed in the most recent earnings call.

U.S. rail operator Union Pacific (-0.47%) was the largest detractor from quarterly performance.

Union Pacific is the largest listed railroad company in North America. After a strong start to the year, rail volumes began to slow noticeably in the third quarter largely due to supply chain issues in intermodal, an exceptionally weak grain harvest and a lack of auto volumes due to the ongoing semiconductor shortage. A combination of these issues has resulted in a weaker third-quarter performance for Union Pacific.

All returns are in local currency.

Positioning and Outlook

On a regional level, the Strategy's largest exposure is in the U.S. & Canada (57%) and consists of exposure to regulated and contracted utilities (35%) and economically sensitive user pays infrastructure (22%).

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 positions in U.K. electric utility National Grid, U.S. electric utilities Dominion Energy and Entergy.

The strategy also used the opportunity to crystallise some gains by exiting Australian toll road operator Atlas Arteria, U.S. electric utility Sempra and Canadian rail operator Canadian National Railway.

Quarterly Stock Highlight

This quarter we review Canadian rail operator Canadian National Railway (CNR).

Canadian National is the largest listed railroad in Canada. Its network is highly extensive, spanning over 20,000 miles across Canada, the U.S. and the Gulf of Mexico.

Canadian National's freight transportation services are crucial to the functioning of the Canadian and U.S. economies. The company provides an efficient and unique service relative to other transport modes (such as trucks) and has historically exhibited pricing power ahead of inflation (subject to light-hand economic regulation). Volumes are cyclical in the short term, but captive shippers, price controls and margin improvement mean that, over the medium and long term, cash flows are likely to be predictable and growing.

Relative to other infrastructure assets, COVID-19's impact on Canadian National's railroad has been more contained. The railroads are considered an essential service and must continue running to ensure goods are delivered across the country. Additionally, Canadian National boasts an investment grade credit rating, which reflects its robust balance sheet/liquidity position as the business continues to generate positive cash flows in the face of the pandemic.

We initiated a position in Canadian National following its attempted takeover of Kansas City Southern, which resulted in a bidding war against its local competitor, Canadian Pacific. Our investment thesis was to capitalise on the weakness seen in Canadian National's share price noting that at the discounted valuation, shares would ultimately re-rate regardless which M&A outcome transpired. This proved to be true as in the third quarter of 2021 the STB (regulator) ultimately denied Canadian National's use of a voting trust to acquire Kansas City Southern, causing shares to outperform.

Nick Langley, Shane Hurst and Charles Hamieh
Investment Committee Members

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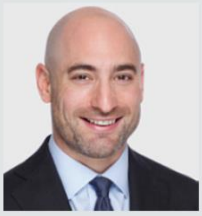

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