Income Strategy

MONTHLY COMMENTARY | FEBRUARY 2021

In February our Global Listed Infrastructure funds underperformed infrastructure indices, which also underperformed general equities due to the general reflation trade, as well as concerns around rising inflation and bond yields.

Markets were squarely focused on the risks of rising inflation, as vaccine rollouts, significant levels of fiscal stimulus, the Federal Reserve's change in its inflation targeting methodology and its willingness to let the economy 'run hot' have raised expectations for a recovering economy. The result was a rapid increase in 10-year bond yields and market concerns about the risk of breakout inflation that may ultimately impact equity valuations.

Market expectations for U.S. growth continued to trend upwards with Biden's additional $1.9 trillion stimulus plan looking increasingly likely. Vaccine rollouts gained momentum with additional vaccine availability further supporting growth and reopening expectations. COVID-19 variants and vaccine efficacy remain the key risk to the downside. Expectations for European inflation, whilst increasing, remained muted compared to the U.S., given the large output gap and lower amounts of stimulus.

Green policies took a back seat in terms of market focus but remain a strong ongoing theme, with energy transition of particular relevance to infrastructure.

Portfolio Performance

On a sector basis, North American energy infrastructure was the top contributor to monthly performance (+0.25%), of which Gibson Energy (+0.13%) and Williams Companies (+0.12%) were the lead performers.

Williams owns and operates natural gas pipelines and associated midstream assets in the U.S. Shares were up due to an improving energy outlook and strong fourth-quarter earnings results for Williams that were better than consensus estimates.

Gibson Energy (GEI) is an oil midstream logistics provider in Western Canada and the U.S. With the global COVID-19 vaccination program making progress, the investment community is becoming increasingly confident on the eventual reopening of the economy. Against this backdrop, sectors that are leveraged to the recovery — such as transport and energy — continue to perform well.

Turning to Western Europe, French toll road operator Vinci (+0.33%) also performed well.

Vinci operates half of France's toll road network under long-term concession agreements, a growing portfolio of airport concessions, and a global contracting business. Transport companies like Vinci, leveraged to an economic recovery, performed well as the global COVID-19 vaccination program made progress.

Canadian renewables utility Brookfield Renewable Partners (-0.60%) was the largest detractor from monthly performance.

Brookfield Renewable Partners (BEP) 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 it an attractive partner. BEP's development pipeline stands at 18,000 MWs and provides confidence the company can meet its targeted double-digit cash flow growth through to 2025. Shares retreated amidst a cool-off in renewables stocks and the unwinding of the C-Corp premium to LP units.

All returns are in local currency.

Positioning and Outlook

On a regional level, the Strategy's largest exposure is in the U.S. & Canada (34%) and consists of exposure to regulated and contracted utilities (29%) and economically sensitive user pays infrastructure (5%).

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 French toll road operator Eiffage, Spanish toll road operator Ferrovial and French rail operator Getlink.

The fund also used the opportunity to crystallise some gains by exiting U.S. electric utility Edison International and U.K. water utility United Utilities.

Monthly Stock Highlight

This month we review Canadian energy infrastructure company Enbridge (ENB).

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 and backed by long-term contracts with credit-worthy counterparties and a strong balance sheet.

We believe that market concerns (i.e. Line 3 replacement project, leverage/funding and structural complexity) have largely been resolved with the execution of strategic initiatives (including non-core asset sales and the MLP wrap-up). We believe Enbridge shares will continue to re-rate toward fundamental value. In the meantime, shareholders collect a dividend yield of ~6.0%.

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