Value Strategy

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The ClearBridge Global Infrastructure Value Strategy outperformed the S&P Global Infrastructure Index during the fourth quarter as well as global equities as represented by the MSCI ACWI.

Macroeconomic factors continued to focus on the outlook for Fed policy given the current environment of higher inflation, with market expectations for a faster pace of interest rate hikes compared to previous months.

The spread of the Omicron variant has started to impact mobility globally, although the severity of the new variant seems milder than previous strains. Markets remain volatile in response.

Ongoing COVID-19 disruption, supply chain issues and high inflation have the potential to delay the full economic recovery; however, markets are not expecting a recession to be a near-term probability.

Portfolio Performance

On a regional basis, the U.S. and Canada region was the top contributor to quarterly performance (+7.05%), of which U.S. rail operators Union Pacific (+1.28%) and CSX (+0.82%) were the lead performers.

Union Pacific is the largest listed railroad company in North America.

CSX is one of five leading North American rail companies, with over 21,000 miles of rail, covering 23 states and 40+ ports. CSX is engaged in the transportation of rail freight in the Southeast, East and Midwest via interchange with other rail carriers, to and from the rest of the U.S. and Canada.

Union Pacific and CSX performed well during the quarter after both companies beat market expectations on their third-quarter results. The beats were largely driven by strong pricing, which could be hitting record highs, and healthy commodity/coal volume driven by the current energy crisis.

Elsewhere in the region, U.S. electric utility Exelon also performed well, contributing +0.94% to quarterly performance.

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 rose as the company received approvals for its anticipated spinoff, in addition to broader supportive datapoints around nuclear support.

Turning to Western Europe, Spanish electric utility Iberdrola (+0.52%) also performed well.

Iberdrola is a multinational integrated electric utility company headquartered in Spain. Iberdrola is engaged in energy networks, renewables and wholesale and retail operations. The company has expanded internationally with operations in the U.K. (via Scottish Power), the U.S. (via Avangrid), Brazil (via Neoenergia) and Mexico. The share price rallied as political risks receded after the gas clawback measures proposed by the Spanish government in September scaled back significantly.

Japanese rail operator East Japan Railway (-0.38%) was the largest detractor from quarterly performance.

East Japan Railway (JR East) is Japan's largest passenger railway operator. Transporting 17 million passengers per day, JR East operates the Shinkansen high-speed rail lines north of Tokyo, as well as commuter trains within the Tokyo metropolitan network. Shares were weak due to ongoing concerns around COVID-19-induced mobility restrictions impacting traffic volumes. As Japan exits its state-of-emergency lockdowns and reintroduces its "go-to-travel" campaign, we would expect traffic to rebound.

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 (58%) and consists of exposure to regulated and contracted utilities (31%) and economically sensitive user pays infrastructure (27%).

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.S. energy infrastructure company Williams Companies and Canadian energy infrastructure company Gibson Energy.

The strategy also used the opportunity to crystallise some gains by exiting Australian airport operator Sydney Airport and U.S. electric utility Alliant Energy.

Quarterly Stock Highlight

This quarter we review U.S. electric utility NextEra Energy.

NextEra is an integrated utility business with a regulated utility operating in Florida and 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.

Almost 100% of NextEra's businesses are either regulated or under long-term contracts, providing cash flow stability and inflation protection.

NextEra has historically been viewed as a premium stock due to its higher than average EPS growth, quality regulatory framework in Florida, and access to a number of different growth platforms. Over the next three years, NextEra is expected to grow EPS by 7%–8%, which is above the sector average of 4%–6%. The superior growth comes from a number of sources:

1. Generation modernisation and distribution reliability spending in Florida, with higher than average electricity volume growth and regulatory trackers ensuring timely recovery;

2. Over 1-15GW of new renewable generation projects, which are subsidized through tax credits; and

3. Newer opportunities such as battery technology, which improves the renewables offering.

Additionally, NextEra can recycle capital efficiently by dropping down assets into NextEra Energy Partners (NEE's subsidiary, which is a total return vehicle providing yield plus growth) at a low cost funded by external NEP unitholders.

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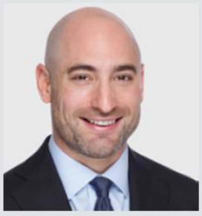
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