

Developed Markets Income Strategy

MONTHLY COMMENTARY

| MAY 2022



Our global listed infrastructure strategies underperformed infrastructure benchmarks and outperformed global equities for the month.

The outlook for interest rates and inflation continues to cause volatility in markets as investors digest expectations of a global slowdown in growth in conjunction with central bank tightening that has been more hawkish than investors initially expected.

Inflation remains a large risk to economic growth as increasing energy and other costs of living expenses put pressure on the average consumer. The probability of a recession is increasing, although we still do not consider a recession the base case.

Portfolio Performance

On a regional basis, the U.S. and Canada was the top contributor to monthly performance (+2.06%), of U.S. renewables utilities Clearway Energy (+0.58%) and NextEra Energy Partners (+0.27%) and Canadian energy infrastructure company Gibson Energy (+0.24%) were the lead performers.

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. Shares rose on the announcement that TotalEnergies and Global Infrastructure Partners are partnering to acquire 50% of Clearway, helping to provide a longer runway for growth projects.

NextEra Energy Partners (NEP) is a growth-oriented contracted renewables company formed by its sponsor and general partner NextEra Energy (NEE) to own, operate and acquire contracted renewable energy generation assets located in North America. NextEra Energy Partners rose in line with renewables, which recovered from weakness in April, partially due to increased confidence in a positive outcome from the U.S. Department of Energy AD/CVD investigation, due in August 2022.

Gibson Energy is an oil midstream logistics provider in Western Canada and the U.S. Energy infrastructure stocks continue to perform well in the context of a higher commodity price environment, which improves the outlook for volumes and expansion projects.

Turning to Western Europe, Italian gas utility Snam (+0.16%) also performed well during the month.

Snam is the owner and operator of gas transport, distribution, storage and regasification infrastructure in Italy and its neighbouring European countries. Shares were up after it announced better-than-expected first-quarter results, as well as further confirmation of the essential role of gas infrastructure in driving Europe's energy independence from Russia mentioned in the latest REPowerEU plan documents.

U.K. electric utility SSE (-0.23%) was the largest detractor from monthly performance.

SSE is a diversified energy utility headquartered in Scotland, U.K. It is vertically integrated, operating over the entire supply chain in the U.K., with generation (including hydro, wind, CCGT), electricity networks and retail businesses (primarily B2B). It is the U.K.'s largest renewable energy generator. Shares corrected after reaching an all-time high in mid-May, mainly due to market uncertainties about whether the U.K. government would extend the windfall taxes on oil and gas companies to power generators.

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 (44%) and consists of exposure to regulated and contracted utilities (33%) and economically sensitive user pays infrastructure (11%).

For the **ClearBridge Developed Markets Infrastructure Income Strategy**, the primary quantitative tool in portfolio construction is excess return, on which our stock-ranking system is based. The ClearBridge Developed Markets Infrastructure Income Strategy also uses yield quality as a secondary measure. As such, driven by valuation, the Investment Committee initiated a position in Italian gas utility Italgas.

Monthly Stock Highlight

This month we review Canadian energy infrastructure company Pembina Pipeline Corporation.

Pembina Pipeline provides transportation and midstream services for the energy industry in North America.

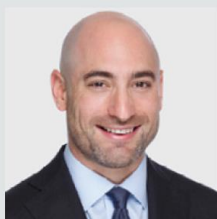
Pembina owns and operates Canadian gas pipeline infrastructure. Pembina's assets are contracted, which provides cash flow visibility.

Pembina's pipelines and facilities assets are poised to benefit from increased throughput volumes as producer activity recovers from pandemic-induced lows and the commodity environment remains supportive. With favourable volume momentum, not only does Pembina collect more fees and revenues for its services, it also should see further growth as the need for debottlenecking and expansion projects increase.

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



Nick Langley



Shane Hurst



Charles Hamieh



Daniel Chu

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