

Income Strategy

MONTHLY COMMENTARY

| AUGUST 2021



Our global listed infrastructure strategy outperformed infrastructure indices and equities for the month.

Economic activity continued to be robust during the month, despite increasing infections caused by the COVID-19 variant strains. The effectiveness of vaccines in preventing hospitalisations has allowed mobility restrictions to begin to ease globally. Countries with lower vaccination rates, however, have continued to struggle.

Government policy remained supportive, continuing to implement previously announced stimulus. Bond rates stabilised, with real bonds declining, while the view that the inflation spike is largely transitory continued, albeit with risk to the upside. Strong labour and wage data, combined with large increases in commodity prices, highlight the risk of higher inflation. However, significant slack in labour markets is expected to contain inflation risk. Markets performed solidly on the back of strong economic data.

Portfolio Performance

On a regional basis, the U.S. and Canada was the top contributor to monthly performance (+0.89%), of which U.S. renewables utility Clearway Energy (+0.41%) and U.S. electric utility Exelon (+0.28%) 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. 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.

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.

Turning to Western Europe, U.K. electric utility SSE also performed strongly, contributing +0.40% to monthly performance.

SSE is a diversified energy utility headquartered in Scotland. It is vertically integrated, operating over the entire supply chain in the U.K., with generation (including hydro, wind, CCGT and coal-fired), electricity and gas networks, and retail businesses. It is the U.K.'s largest renewable energy generator. Activist investor Elliott had reportedly built a stake in the company, leading to speculation of a potential breakup.

Canadian energy infrastructure company Pembina Pipeline (-0.25%) was the largest detractor from monthly performance.

Pembina Pipeline provides transportation and midstream services for the energy industry in North America. Sentiment toward the midstream and energy sectors was negatively impacted by the rising COVID-19 Delta variant cases globally, and the perceived impact on global growth.

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 (40%) and consists of exposure to regulated and contracted utilities (30%) and economically sensitive user pays infrastructure (10%).

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 a position in U.S. electric utility Entergy.

The strategy also used the opportunity to crystallise some gains by exiting U.S. electric utility Pinnacle West.

Monthly Stock Highlight

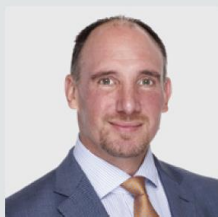
This month we review Brazilian electric utility CPFL Energia.

CPFL Energia (CPFE) is a Brazilian integrated electric utility. It is one of Brazil's largest distribution and generation companies, with a 13% market share in distribution and a 3% market share in generation. CPFE's distribution assets include eight separate concessions that are federally regulated and generation assets consisting of a mix of hydro and renewable assets that are underpinned by long-term take-or-pay contracts.

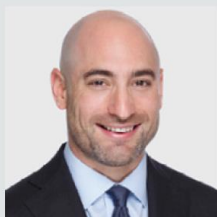
100% of CPFE's value is either regulated or under long-term contracts. As such, CPFE's revenue profile provides investors with stable, inflation-protected cash flows. Additionally, CPFE is privately owned, which reduces their exposure to government pressure.

CPFE's concession areas are concentrated in the richest areas of Brazil (São Paulo, Rio Grande do Sul) and have a clear pathway for growth, having recently concluded tariff reviews across all their major distribution assets. Across their generation business, CPFE remains virtually fully contracted until 2025, leading to a highly stable cash flow profile. CPFE currently trades at an EV/RAB discount relative to their closest peers (Energisa and Equatorial) and we see this gap narrowing as new management continue demonstrate their quality. In light of the recent COVID-19 situation, of all integrated utilities in Brazil, CPFE is best positioned to weather the storm given the contracted nature of their concessions and operations across the most lucrative areas in Brazil, which are less prone to economic downturns.

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



Nick Langley



Shane Hurst



Charles Hamieh



Daniel Chu

Important Information

This material has been prepared for investment professionals, qualified investors and investment advisors only. This material presents information in a manner which is not suitable for retail investors and ClearBridge Investments Limited does not authorise the provision of this material to retail investors.

While the information contained in this document has been prepared with all reasonable care, ClearBridge Investments Limited and its related companies ("ClearBridge") accept no responsibility or liability for any errors, omissions or misstatements however caused. Any views expressed in this material are given as of the date of publication and such views are subject to change at any time.

This information is not personal advice. It has been prepared without taking account of individual objectives, financial situations or needs. Where an investment product is mentioned, potential investors should seek independent advice as to the suitability of the product to their investment needs. Reference to shares in a particular company, is not a recommendation to buy, sell or hold that stock. Investors should be aware that past performance is not indicative of future performance.

This information may contain forecasts, including in regard to targets, expected returns, PE ratios and dividend yields. Any such statements are based upon research undertaken by the ClearBridge investment team. This research incorporates ClearBridge's reasonable assumptions and beliefs concerning future developments and their

potential effect but are subject to risks and uncertainties that may be beyond ClearBridge's control. Returns can be volatile, reflecting rises and falls in the value of underlying investments. Accordingly, ClearBridge does not provide any assurance or guarantee that future developments will be aligned with ClearBridge's expectations, and actual results may differ materially from those expected by ClearBridge at the time of writing.

The distribution of this document may be restricted in your jurisdiction. This document does not constitute an offer or solicitation in any jurisdiction in which to make such an offer or solicitation would be unlawful. It is your responsibility to ensure that any such product, security, service or investment outlined is available in your jurisdiction.

Issued and approved outside Canada and the United States of America by ClearBridge Investments Limited ("CIL"), registered office Level 13, 35 Clarence Street, Sydney, NSW 2000, Australia (ABN 84 119 339 052; AFSL 307 727).

In Canada and the United States of America, issued and approved by ClearBridge Investments (North America) Pty Ltd ("CINA"), registered office Level 13, 35 Clarence Street, Sydney, NSW 2000, Australia (ACN 138 069 191). Neither CIL nor CINA are registered as a dealer in any province in Canada. CIL and CINA are not offering the securities of any investment fund that may be described in the materials in Canada or the United States. This material has not been approved or verified by the SEC or the Autorité des marchés financiers.

CIL is wholly, indirectly owned by Franklin Resources, Inc., and part of ClearBridge Investments, LLC.