

Income Strategy

QUARTERLY COMMENTARY | DECEMBER 2022



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

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, with elevated volatility in the U.K. and Europe as a result of sustained high energy prices.

Inflation continues to sustain itself at a higher level for longer, making it difficult for central banks to refrain from loosening policy even as the economic outlook deteriorates. Although maintaining a tightening position is common across most economies, varying economic circumstances may lead monetary policies to diverge in the extent of tightening. As a recession continues to be part of consensus expectations, the duration and depth of the recession remains the largest risk to investors.

Portfolio Performance

On a regional basis, Western Europe was the top contributor to quarterly performance (+3.35%), of which Spanish electric utility Iberdrola (+0.62%) and U.K. electric utility SSE (+0.50%) were the lead performers.

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 market received its strategic plan update positively, as it emphasises protecting the balance sheet and more skew toward regulated networks than before. In addition, the appointment of a new CEO, separated from the chairman role, signified improvement in corporate governance

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 were up as there was more clarity over an energy profit levy for electricity generators announced in the U.K.; SSE also announced a minority sale in its transmission network at multiples more attractive than the market expected.

Turning to North America, U.S. electric utilities Public Services Enterprise Group (+0.49%) and Entergy (+0.44%) also performed well during the quarter.

Public Services Enterprise Group (PEG) operates the largest utility business (~90% of earnings) in New Jersey, along with a generation business (~10% of earnings) comprising nuclear and gas turbine facilities.

Entergy is a pure regulated electric utility, providing services in Arkansas, Louisiana, Texas and Mississippi.

Shares of Public Services Enterprise Group and Entergy were higher as broader utilities outperformed on lower rates.

Canadian electric utility Emera (-0.42%) was the largest detractor from quarterly performance.

Emera is a listed Canadian utility that generates 95% of its earnings from its regulated operations in Florida and Nova Scotia. Shares declined after the Premier of Nova Scotia introduced legislation that places a cap on electricity rates, effectively circumventing a well-established independent regulatory framework.

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 (29%) and economically sensitive user pays infrastructure (11%).

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 U.S. electric utilities Edison International, Southern Company and Constellation Energy, Japanese rail operator West Japan Railway, U.S. gas utility Southwest Gas and Brazilian electric utility Eletrobras.

The strategy also used the opportunity to crystallise some gains by exiting French toll road operator Vinci, French rail operator Getlink and due to heightened regulatory risk, the Investment Committee also exited Canadian electric utility Emera.

Quarterly Stock Highlight

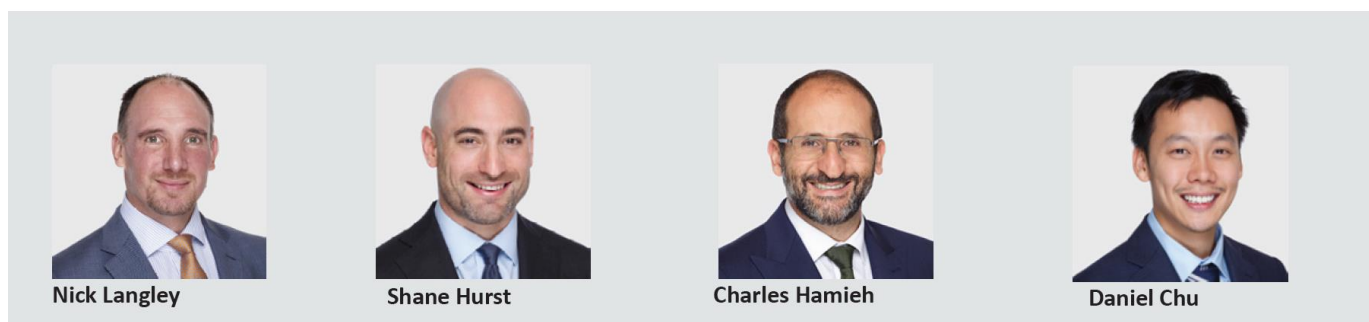
This quarter we review Australian gas utility APA Group.

APA is Australia's largest gas pipeline operator. APA owns and manages gas transmission pipelines in all states of mainland Australia, as well as gas storage and processing, contracted power generation and renewable energy production.

Most of APA's assets consist of gas transmission pipelines that are regulated or have long-term contracts. Average contract tenor at APA is in excess of 12 years.

APA generates attractive returns on investments (ROIs) from their regulated and contracted gas assets, above their Cost of Capital. Following a period of heavy investment (organic and acquisition-based), APA is generating high levels of operating cash flow and returning strong dividend growth to investors.

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



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