Income Strategy

QUARTERLY COMMENTARY | MARCH 2021

Our Global Listed Infrastructure funds underperformed infrastructure indices, which marginally underperformed equities for the quarter, largely due to higher weights in rate-sensitive stocks among infrastructure sectors.

The quarter saw rapid increases in both bond rates and inflation expectations as the economic recovery continued, strongly aided by a quickening vaccine rollout and massive levels of government stimulus. Consensus growth expectations were revised higher during the quarter. Inflation is expected to increase in the coming months due to transitory effects before returning to a more normalised rate. Bond rates are expected to increase in a more orderly path for the remainder of 2021 before settling around 2.0%–2.5% for the U.S. 10-year Treasury note.

Vaccine rollouts continued to accelerate in many regions, driving optimism about reductions in mobility restrictions, despite increasing COVID-19 cases in regions such as Europe. Reductions in mobility restrictions are expected to impact the second half of 2021 and are required for the recovery of the services sector, which lags the largely recovered goods sector. This will likely drive further increases in revenues for transport assets.

Stimulus remained plentiful, particularly in the U.S. with Biden’s $1.9 trillion stimulus plan approved during the quarter and closely followed by a proposal for a $2 trillion infrastructure bill, broadly defined. Strong levels of stimulus will continue to support economic growth.

Portfolio Performance

On a regional basis, North America was the top contributor to quarterly performance (+1.04%), of which Canadian energy infrastructure company Enbridge (+0.47%) and U.S. renewables utility NextEra Energy Partners (+0.37%) were the lead performers.

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. Energy stocks were in favour during the first quarter, as they are viewed as beneficiaries of the eventual economic recovery, as COVID-19 vaccines get rolled out through 2021. Enbridge has already experienced substantial recovery in its oil throughput in their pipeline systems, and is expected to fully recover by year-end as refinery demand normalises.

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. Growth comes from the dropdown of assets from NEE and we anticipate this should allow NEP to provide 12%–15% dividend growth to 2024. Shares were higher amid an improved renewables project backlog following fourth-quarter results. Continued positive green policy news following the Democrats’ runoff election win also raised expectations of green fiscal stimulus.

Elsewhere in the region, U.S. energy infrastructure company Williams Companies (+0.32%) also performed well.

Williams owns and operates natural gas pipelines and associated midstream assets in the U.S. Shares continued to rebound driven by the strong cyclical recovery, which has benefited energy stocks. Williams also delivered resilient fourth-quarter earnings despite energy demand pressure from COVID-19.

Turning to Latin America, Brazilian electric utility TAESA also performed strongly, contributing +0.25% to quarterly performance.

Transmissora Alianca De Energia Eletrica S.A. Unit (TAESA) is a pure play transmission company in Brazil. TAESA operates around 13,000 kilometres of transmission lines and 70 substations. These assets are based on a concession structure with fixed revenues that grow at inflation. Shares were higher as TAESA announced the evaluation of a stake sale by a major shareholder with the expectation that the valuation will be attractive.

U.S. renewables utility Brookfield Renewable Partners (-0.76%) was the largest detractor from quarterly performance.

Brookfield Renewable Partners is a pure-play renewables operator and developer headquartered in Canada and domiciled in the U.S, 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. Its development pipeline stands at 18,000 MWs, providing confidence the company can meet its targeted double-digit cash flow growth through to 2025. Shares moderated amid expectations of rising bond yields, and a cool-off on the green trade.

All returns are in local currency.

Positioning and Outlook

On a regional level, the Strategy's largest exposure is in the U.S. & Canada (39%) and consists of exposure to regulated and contracted utilities (32%) and economically sensitive user pays infrastructure (7%).

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 operators Vinci and Eiffage, U.S. electric utility Pinnacle West, Brazilian toll road operator CCR, Spanish toll road operator Ferrovial, U.S. infrastructure company Brookfield Infrastructure Partners, Canadian energy infrastructure company Pembina Pipeline, Brazilian electric utility CPFL Energia and French rail operator Getlink.

The fund also used the opportunity to crystallise some gains by exiting Australian gas utility APA Group, U.S. energy infrastructure company Williams Companies, U.K. water utility United Utilities, Brazilian electric utility CTEEP, U.S. electric utility Edison International and Italian electric utility Terna.

Quarterly Stock Highlight

This quarter we review Canadian gas utility TC Energy (TRP).

TC Energy is a high-quality North American energy infrastructure company leveraged to the natural gas growth thematic.

Approximately two-thirds of TC Energy's EBITDA is derived from its natural gas pipeline businesses (Canada, U.S. and Mexico), a quarter is from its liquids pipeline business, with the balance from power generation.

TC Energy is one of the highest-quality North American midstream companies, with stability in cash flows through its regulated and contracted nature of its transmission assets. The scarcity value of its asset base, mainly being the Western Canadian Sedimentary Basin and the U.S. Appalachia shale regions, provides us confidence on the longevity of the cash flows and TC Energy's ability to pay consistent dividends. We consider the valuation to be attractive.

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


Nick Langley


Shane Hurst


Charles Hamieh


Daniel Chu

In Canada and the United States of America, issued and approved by ClearBridge RARE Infrastructure (North America) Pty Ltd ("CBI RINA"), registered office Level 13, 35 Clarence Street, Sydney, NSW 2000, Australia (ACN 138 069 191). Neither CIL nor CBI RINA are registered as a dealer in any province in Canada. CIL and CBI RINA 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 OSC.

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