Value 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 (+1.56%), of which U.S. electric utilities Exelon (+0.25%) and NextEra Energy (+0.24%) and Canadian rail operator Canadian National Railway (+0.20%) were the lead performers.

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.

NextEra Energy (NEE) is an integrated utility business with a regulated utility operating in Florida and the largest wind business in the U.S. NEE's regulated business includes Florida Power & Light (FP&L), which serves 9 million people in the State of Florida. The share price of NEE rallied in line with the industry, along with the continued progress on President Biden's stimulus proposal.

Canadian National Railway (CNR) is the largest listed railroad in Canada. CNR's network is highly extensive, spanning over 20,000 miles across Canada, the U.S. and the Gulf of Mexico. CNR is currently in the midst of an attempted takeover of Kansas City Southern (KSU). In the last few months, the probability of this takeover took a hit following President Biden's executive order discouraging M&A amongst railroads, combined with a rejection by the Surface Transportation Board of CNR/KSU's request to use a Voting Trust structure to acquire KSU shares. CNR shares responded favourably to this as shareholders felt their offer price was higher than desired and cash would be best used elsewhere in the short-to-medium term.

Turning to Western Europe, U.K. electric utility SSE also performed strongly, contributing +0.39% 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 takeover or 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 their 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 (59%) and consists of exposure to regulated and contracted utilities (34%) and economically sensitive user pays infrastructure (25%).

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. electric utilities Dominion Energy and Entergy.

The strategy also used the opportunity to crystallise some gains by exiting Australian toll road operator Atlas Arteria.

Monthly Stock Highlight

This month we review U.S. renewables utility Clearway Energy.

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's portfolio consists of wind, solar, thermal and natural gas pipeline assets. These assets operate under long-term PPA contracts.

Clearway provides exposure to an underlying portfolio of assets (contracted renewable and conventional generation and thermal infrastructure assets) that produce stable and predictable cash flows, primarily through long-term contracts. Clearway's parent company, Global Infrastructure Partners, has a development pipeline spanning 9GW, providing additional growth optionality.

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