

# Income Strategy

MONTHLY COMMENTARY

| OCTOBER 2021



Our global listed infrastructure strategies performed in line or better than a range of infrastructure benchmarks, which underperformed global equities for the month.

Macroeconomic factors continued largely in the same vein as in previous months, with the markets focused on supply chain disruptions and the sustained high level of inflation, including high energy prices.

Economic activity continued to rebound, albeit slightly below expectations, largely as a result of supply chain disruptions. Inflation remained high and, combined with high energy prices and strong wage and labour data, increased the markets' expectation that interest rate increases will be brought forward.

Mobility restrictions continued easing as COVID-19 vaccine rollouts carried on strongly in many regions and as some regions such as Asia Pacific moved away from a zero-COVID-19 strategy.

Ongoing COVID-19 disruption, supply chain issues and high inflation have the potential to delay the full economic recovery; however, markets are not signalling increased odds of a recession, despite yield curves flattening.

---

## Portfolio Performance

On a regional basis, the U.S. and Canada was the top contributor to monthly performance (+2.95%), of which U.S. renewables utility Clearway Energy (+0.73%) and U.S. electric utility Exelon (+0.50%) 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 rallied with the completed sale of its thermal assets, which at USD\$1.9 billion was above street expectations of USD\$1.3 billion. Additionally, there was optimism surrounding a stimulus bill pass-through which contains renewables subsidies.

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 optimism surrounding a stimulus bill and reconciliation pass-through that would de-risk nuclear cash flows from a magnitude and timeframe perspective.

Turning to Western Europe, Spanish electric utility Iberdrola also performed well, contributing +0.39% to monthly performance.

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. Iberdrola's share price rallied during the month due to the receded political risks after the gas clawback measures introduced in September were scaled back significantly.

Australian toll road operator Atlas Arteria (-0.18%) was the largest detractor from monthly performance.

Atlas Arteria is a toll road owner and operator with its key assets being a 31% stake in the APRR, AREA and ADELAC concessions in France and 100% ownership of Dulles Greenway in Virginia, in the U.S. In addition, it owns the Warnow Tunnel in Germany. The French concessions represent ~75% of the company's value. Atlas Arteria's share price declined during October owing to an increase in bond yields, particularly in Australia. Lower Australian bond yields also strengthened the Australian dollar, reducing the value of Atlas Arteria's assets, which are all offshore.

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 (42%) and consists of exposure to regulated and contracted utilities (29%) and economically sensitive user pays infrastructure (13%).

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.K. water company United Utilities and Mexican airport operator Grupo Aeroportuario del Sureste.

The strategy also used the opportunity to crystallise some gains by exiting French toll road operator Eiffage.

## Monthly Stock Highlight

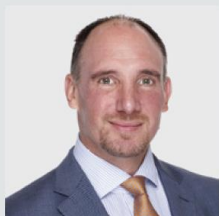
This month we review U.S. renewables utility NextEra Energy Partners.

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. NEP's portfolio consists of wind, solar and natural gas pipeline assets and is a premium contracted renewables company with a leading renewables platform across the U.S. The weighted average contract duration is approximately 20 years.

The sheer size of its growth opportunities relative to its starting size means the duration and magnitude of NEP's growth story is unmatched among peers. Growth comes from the dropdown of assets from NEE and we anticipate this should allow NEP to provide 12%–15% dividend growth until the end of the decade and beyond.

With NEP warehousing completed and operational contracted assets from NEE, NEP should command a higher valuation and lower cost of capital than its parent, allowing accretive dropdown transactions to be made between NEP and NEE.

### 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, OSC or the Autorité des marchés financiers.

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