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.

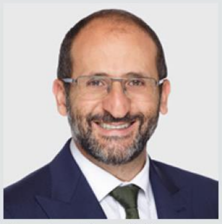
The sheer size of its growth opportunities relative to its starting size means the duration and magnitude of NEP's growth story is unmatched among peers. Growth comes from the dropdown of assets from NEE and we anticipate this should allow NEP to provide 12%–15% dividend growth until the end of the decade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