



Global Infrastructure Value Strategy



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Key Takeaways

- ▶ Listed infrastructure trailed global equities in the fourth quarter, both delivering a more subdued end to a strong year of performance.
- ▶ Western Europe was the top-contributing region to Strategy performance, where electric utilities and toll roads delivered solid returns.
- ▶ We expect a continued constructive policy environment with rates maintaining a downward trajectory. This in conjunction with a further AI-related capacity additions should continue to support infrastructure investments.

Market Overview

Listed infrastructure trailed global equities in the fourth quarter, both delivering a more subdued end to a strong year of performance. Despite two cuts in short-term rates in the U.S. in the quarter, rate-sensitive sectors were pressured by higher longer-term bond yields and a higher-for-longer sentiment more generally. Continuing a catch-up trade and further helped by improving regulation, European utilities outpaced U.S. utilities. Renewables also performed well, benefiting from their growing relevance in the AI buildout and policy derisking.

Underperforming sectors included natural gas utilities and energy infrastructure pipelines, communication towers and North American rails. Higher production and storage levels and weaker weather forecasts for natural gas kept prices lower most of the quarter, weighing on shares of natural gas utilities and pipeline stocks. Elevated interest rates and lower growth drove largely negative performance from communication tower stocks. North American rails remained in something of a holding pattern as we await a recovery in freight volumes.

On a regional basis, Western Europe was the top portfolio contributor for the quarter, with U.K. electric utility SSE and Spanish toll road operator Ferrovial the lead performers.

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, combined cycle gas turbine), electricity networks, and retail businesses (primarily B2B). It is the U.K.'s largest renewable energy generator. SSE's share price rose as funding risks diminished and concerns around the U.K. macroeconomic outlook eased.

Ferrovial operates and develops toll road concessions and airports globally. In December, Ferrovial's U.S.-listing qualified for Nasdaq 100 inclusion, which we view as a positive validation for the stock. Ferrovial's core toll road asset in Ontario, the 407-ETR, announced higher-than-expected toll increases for 2026, which continues to demonstrate the importance of that road in its service corridor. The concession agreement to that asset continues through to 2098 and enables Ferrovial to continue benefiting from favourable population trends into Ontario and the associated strong pricing power on that asset as congestion increases over time.

U.S. electric utility WEC Energy and U.S. renewables utility Brookfield Renewable were the largest detractors.

WEC Energy is a regulated utility operating in the upper Midwest region of America, with most of its business in Wisconsin, serving 4.6 million customers across its gas and electric businesses. Shares declined after WEC's annual update disappointed and investors rotated out of the stock and utility sector into more cyclical parts of the market.

Brookfield Renewable is a pure-play renewables operator and developer headquartered in Canada, focused on international hydro, solar, wind and storage technology. As more private and public institutions announce ambitious carbon reduction initiatives, Brookfield's globally diversified, multi-technology renewables business makes it an attractive partner. Brookfield's development pipeline stands at 18,000 MWs, providing confidence that the company can meet its targeted double-digit cash flow growth through to 2025. Brookfield's share price fell as the renewables trade cooled following a strong run in 2025.

Outlook

Inflection in electricity demand and solid earnings growth helped listed infrastructure performance in 2025, and this looks set to continue in 2026, with the added benefit of lower nominal bond yields.

Electric utilities, which make up the bulk of our portfolio, continue to benefit from several tailwinds: the energy transition, as poles and wires are built out to connect renewables to the grid and EV charging stations (all regulated expenditure for utilities and earning regulated returns); the mitigation of and adaptation to climate change impacts on electricity networks, which is driving resiliency spend; and growing electricity demand, particularly from AI data centers, but also from growing industrial demand. These tailwinds support a strong earnings backdrop and continued conviction in a balanced exposure to utilities.

Portfolio Highlights

We believe an absolute return, inflation-linked benchmark is the most appropriate primary measure against which to evaluate the long-term performance of our infrastructure strategies. The approach

ensures the focus of portfolio construction remains on delivering consistent absolute real returns over the long term.

On an absolute basis, the Strategy saw positive contributions from five of eight sectors in which it was invested in the quarter, with the electric utility and toll roads sectors the top contributors and renewables and energy infrastructure the main detractors.

Relative to the FTSE Global Core Infrastructure 50/50 Index, the Strategy outperformed in the fourth quarter, driven by strong stock selection in the electric, water and gas utility sectors as well as toll roads. Stock selection in the airports sector, a renewables overweight and a lack of ports exposure detracted.

On an individual stock basis, the top contributors to absolute returns in the quarter were SSE, Ferrovial U.K. water utility Severn Trent, U.S. electric utility NextEra Energy and Italian electric utility Enel. The main detractors were WEC Energy, Brookfield Renewable, U.S. electric utilities DTE Energy and OGE Energy as well as Spanish electric utility Redeia.

During the quarter, we initiated positions in Brookfield Renewable, Brazilian electric utility Equatorial and U.S. electric utility Portland General Electric. We also exited our positions in Canadian electric utility Emera and U.S. energy infrastructure company Cheniere.

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