

Emerging Markets Strategy

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The ClearBridge Global Infrastructure Emerging Markets Strategy underperformed the S&P Global Infrastructure Index during the fourth quarter, with both trailing global equities as represented by the MSCI ACWI.

Macroeconomic factors continued to focus on the outlook for Fed policy given the current environment of higher inflation, with market expectations for a faster pace of interest rate hikes compared to previous months. Across key EM regions, heightened political and economic concerns triggered weakness in Brazilian equity market and currency in particular.

The spread of the Omicron variant has started to impact mobility globally, although the severity of the new variant seems milder than previous strains. Markets remain volatile in response.

Ongoing COVID-19 disruption, supply chain issues and high inflation have the potential to delay the full economic recovery; however, markets are not expecting a recession to be a near-term probability.

Portfolio Performance

On a regional basis, Latin America was the top contributor to quarterly performance (+1.11%), of which Mexican airport operator Grupo Aeroportuario del Pacífico (+0.57%) and Mexican communications company Telesites (+0.54%) were the lead performers.

Grupo Aeroportuario del Pacífico SAB de CV (GAPB) is Mexico's largest airport operator with a portfolio of 13 airports focused in Mexico's Pacific region with an additional airport in Jamaica. GAPB performed strongly during the quarter as traffic recovery across their airports continued to be exceptionally strong with passenger figures reaching as high as 90% of pre-pandemic levels.

Telesites is a Mexican communications company with communication towers distributed across Mexico. Telesites performed well following a beat in their third-quarter earnings report. Along with this, the company ceded a further 958 towers into their FIBRA, which will generate favourable tax benefits.

Turning to Asia Pacific, Chinese electric utility China Resources Power (+0.50%) also performed well during the quarter.

China Resources Power is an independent power producer (IPP), operating 33GW of thermal power units and 17GW of wind and solar power units in China. Its holding company is China Resources Group, a major state-owned conglomerate. The share price of China Resources Power rose during the quarter due to announced power tariff hikes to compensate for the fuel cost increase, as well as renewables gaining traction after China reiterated a goal of peak carbon emissions by 2030 with a roadmap laid out.

Chinese gas utility China Gas Holdings (-1.18%) was the largest detractor from quarterly performance.

China Gas Holdings (CGH) is the largest gas distribution utility in China with a portfolio of last-mile city gas concessions. As the most ambitious early mover to tap into rural coal-to-gas opportunities, CGH is well-positioned to achieve stronger-than-peers' volume and earnings growth. The share price of CGH fell due to the company's first-half results miss and reduction in full-year guidance, along with an explosion at a project at which the company had a minority stake.

All returns are in local currency.

Positioning and Outlook

This strategy is invested in high-quality companies benefiting from structural drivers, with strong cash flow and dividend yields. We have strong conviction in the long-term opportunities within emerging markets listed infrastructure. At the regional level, the majority of the strategy is split between Asia Pacific EM (67%) and Latin America (29%). At the sector level, the strategy is split between economically sensitive user-pays infrastructure (60%) and regulated and contracted utilities (38%).

For the **Global Infrastructure Emerging Markets 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 African communications company IHS Holding and Mexican airport operator Grupo Aeropuertos Del Sureste.

The strategy also exited Chinese gas utility China Gas Holdings due to changes in growth outlook and risk profile.

Quarterly Stock Highlight

This quarter we review Indian electric utility Power Grid.

Power Grid is India's principal electric power transmission company. It has a share of more than 90% of India's interstate and inter-regional electric power transmission system.

Power Grid is a monopoly transmission utility that primarily owns and operates the inter-regional transmission lines in India. Power Grid's assets are regulated, which provides cash flow stability.

India plans to invest USD\$36 billion in the transmission sector over the next five years. Power Grid would account for more than 50% of this investment. In addition to the regulated interstate capital expenditure, Power Grid will also invest in intrastate, the green energy corridor and competitive bid projects that we believe will likely give it consistent regulated returns.

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