

Developed Markets Income Strategy

MONTHLY COMMENTARY

| JULY 2022



Our global listed infrastructure strategies outperformed infrastructure benchmarks and underperformed global equities for the month.

The outlook for interest rates and inflation continues to cause volatility in markets as investors digest expectations of a global slowdown in growth in conjunction with central bank tightening, with the expectation that inflation and central bank hawkishness is close to its peak.

Inflation remains a large risk to economic growth as increasing energy prices and a higher cost of living pressure the average consumer. The probability of a recession continues to increase, as consensus expectations move closer to a recession as a base case.

Portfolio Performance

On a regional basis, the U.S. and Canada was the top contributor to monthly performance (+3.23%), where U.S. renewables utility NextEra Energy Partners (+0.52%) and U.S. electric utility Constellation Energy (+0.44%) performed strongly.

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. NextEra Energy Partners' share price rose along with progress on the proposed Inflation Reduction Act, which would include support for renewable energy.

Constellation Energy is primarily a nuclear generation company and is the largest producer of carbon-free electricity in the U.S. The share price of Constellation Energy rose as there was a higher chance of federal legislation passing, which would support price stability for nuclear assets.

Turning to Western Europe, U.K. electric utility SSE (+0.55%) and Portuguese renewables utility Energias de Portugal (+0.49%) also performed well during the month.

SSE is a diversified energy utility headquartered in Scotland, U.K. It is vertically integrated, operating over the entire supply chain in the U.K., with generation (including hydro, wind, CCGT), electricity networks and retail businesses (primarily B2B). It is the U.K.'s largest renewable energy generator. The share price of SSE rallied during the month due to lessened concern over a potential windfall tax on electricity generators in U.K.

Energias de Portugal (EDP) is an integrated utility based in Iberia, operating electricity distribution, generation and energy supply businesses. It has a growing exposure to global renewables, through its 83%-owned subsidiary EDPR, mostly in onshore wind farms, and operates electricity distribution and generation businesses in Brazil through its 50%-owned EDP Brasil. EDP's share price rose with the strong earning results reported for the second quarter, and management's reiteration of the company's full-year guidance, both of which were welcomed by the market.

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 in July as IFM announced it was ceasing talks with the company with respect to a potential takeover of Atlas Arteria securities. IFM did, however, reserve the right to recommence discussions.

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 (45%) and consists of exposure to regulated and contracted utilities (34%) and economically sensitive user pays infrastructure (11%).

For the **ClearBridge Developed Markets Infrastructure Income Strategy**, the primary quantitative tool in portfolio construction is excess return, on which our stock-ranking system is based. The ClearBridge Developed Markets Infrastructure Income Strategy also uses yield quality as a secondary measure.

Monthly Stock Highlight

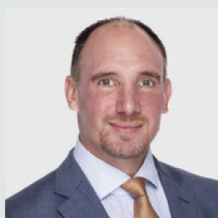
This month we review Spanish electric utility Iberdrola.

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.

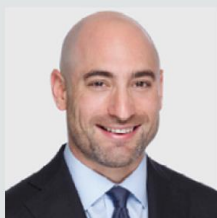
Iberdrola's asset base consists of a regulated energy network business and one of the world's largest portfolios of wind energy assets, which are under long-term contracts — altogether representing over 80% of its earnings and future investments. As a result, Iberdrola's predictable long-term cash flows satisfy our definition of infrastructure.

Iberdrola was one of the first companies to recognise the scope of the opportunity in renewable generation. Through sustained investment, it has become one of the largest wind power operators in the world, with over 16 GW spread across Spain, the U.K., the U.S. and other locations. Additionally, Iberdrola has a clear strategy with a large investment program over the next five years, the bulk of which will be in low-risk regulated energy networks and renewables, with decreasing exposure to market-exposed generation and supply. This will likely provide steady long-term growth of cash flows.

Nick Langley, Shane Hurst, Charles Hamieh and Daniel Chu Investment Committee Members



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