

Income Strategy

QUARTERLY COMMENTARY

| SEPTEMBER 2021



Our global listed infrastructure strategy outperformed the range of infrastructure indices as well as global equities for the quarter.

Economic activity continued to rebound amidst strong consensus expectations for corporate earnings and economic growth forecasts.

COVID-19 vaccine rollouts gained pace in many regions, helping ease mobility restrictions despite the new Delta variant causing an increase in confirmed cases.

Government policy remained supportive, with continued implementation of previously announced stimulus. Bond rates remained range bound to September following the September FOMC meeting; the Fed continues with the view that the recent inflation spike is largely transitory, with upside risk able to be addressed through possible tapering later in the year. Strong labour and wage data, combined with large increases in commodity prices, highlight the risk of inflation to the upside in the near term. However, significant slack in the labour markets is expected to contain inflation risk. Despite strong economic data, markets remained flat due to fears that supply chain bottlenecks and larger than expected commodity price increases would be headwinds to the recovery.

Portfolio Performance

On a regional basis, Asia Pacific was the top contributor to quarterly performance (+3.72%), of which Australian airport operator Sydney Airport (+1.67%), Australian electric utilities AusNet Services (+1.44%) and Spark Infrastructure (+0.52%) were the lead performers.

Sydney Airport manages Australia's largest airport at a strategic and operational level under a 99-year lease. Sydney Airport's share price increased during the quarter as a result of an indicative takeover offer that was revised several times to \$8.75/share and resulted in the granting of due diligence by the board.

AusNet Services owns and operates energy infrastructure in Australia, including the electricity transmission network in Victoria, an electricity distribution network that delivers electricity to over 720,000 consumer connection points in eastern Victoria and a gas distribution network that delivers natural gas to about 700,000 consumer connection points in central and western Victoria. AusNet's share price rallied during the quarter on the back competing indicative takeover offers at \$2.50/share and \$2.60/share, with exclusive due diligence having been granted prior to the higher bid being announced to the market.

Spark Infrastructure is an Australian company that invests in regulated energy networks. It owns electric distribution networks in South Australia, central Melbourne and western Victoria. It also has a 15% stake in TransGrid (NSW electricity transmission) as part of a consortium. Spark Infrastructure's share price increased during the quarter as a result of an indicative takeover offer that was revised several times to \$2.95/share and Spark entering into a Scheme Implementation Deed with the acquirers.

U.S. communications company Crown Castle (-0.44%) was the largest detractor from quarterly performance.

Crown Castle is the leading independent owner and operator of wireless communications infrastructure in the U.S. with a portfolio of approximately 40,000 towers. Shares underperformed after Crown Castle announced that growth in its small cells business had slowed due to delays in the permitting process and carriers focusing network buildout on macro tower sites. This was further compounded as investors moved away from defensive securities as bond yields rose.

All returns are in local currency.

Positioning and Outlook

On a regional level, the Strategy's largest exposure is in the U.S. & Canada (41%) and consists of exposure to regulated and contracted utilities (29%) and economically sensitive user pays infrastructure (12%).

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.S. energy infrastructure company Williams Companies, Australian gas utility APA Group and U.S. electric utility Entergy.

The strategy also used the opportunity to crystallise some gains by exiting Chilean water company Aguas Andinas, U.K. water company Pennon, U.S. electric utility Pinnacle West, Brazilian electric utility TAESA, and Australian electric utility Spark Infrastructure.

Quarterly Stock Highlight

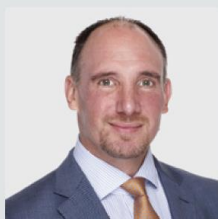
This quarter we review U.S. electric utility Exelon.

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.

Exelon operates a T&D utility and generation business.

At the core of our thesis is the company's ownership of high-quality transmission and distribution utility businesses that are growing at above-average rates. We see upside in two other aspects as well. First, we believe shares are trading at the intrinsic value of the utility-standalone business and ascribing minimal value to Exelon's generation business. We believe the spin-off of the generation business in 2022 will lead to realisation of value. Second, we see the potential positive catalyst of subsidies being given to Exelon's nuclear business, either through the Illinois legislature or through Biden's nuclear tax credits.

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