

Income Strategy

MONTHLY COMMENTARY

| MAY 2021



Our global listed infrastructure strategy performed within the range of infrastructure indices, which marginally underperformed equities for the month.

Economic activity continued to rebound strongly during the month with ongoing and significant upgrades to consensus earnings and economic growth forecasts.

COVID-19 vaccine rollouts gained pace in many regions, although mobility restrictions remained significant and even increased in many regions as a third wave of infections continued at elevated levels. U.S. mobility restrictions proved the exception, easing as vaccine penetration increased.

Government policy remained supportive, with continued implementation of previously announced stimulus. Bond rates stabilised, with real bonds declining and the continued view that the inflation spike is largely transitory, albeit risk is to the upside. Strong labour and wage data, combined with large increases in commodity prices, highlight the risk of higher inflation; however, significant slack in labour markets is expected to contain inflation risk. Markets performed solidly on the back of the strong economic data.

Portfolio Performance

On a regional basis, Western Europe was the top contributor to monthly performance (+0.91%), of which U.K. electric utility SSE (+0.24%) and Spanish gas utility Enagas (+0.15%) were 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, CCGT and coal-fired), electricity and gas networks, and retail businesses. It is the U.K.'s largest renewable energy generator. Shares performed in line with the U.K. utility sector, which did well along with rising inflation. The company also announced a solid set of FY21 results, meeting market expectations.

Enagas engages mainly in the transport, storage and regasification of natural gas in Spain. It is a natural monopoly in transport and has the largest share of regasification in Spain. Shares rose after the company announced its 1Q result in late April, which shows its associate Tallgrass starting to pay dividends and having a reassuring FY21 guidance benefiting from weather conditions.

Elsewhere in the region, Spanish electric utility Red Electrica (+0.15%) also performed strongly.

Red Electrica is engaged in the supply and transmission of electricity and is the sole high-voltage transmission agent and system operator in Spain. Shares did well along with Spanish bond yields coming down from the recent high.

Turning to Latin America, Brazilian toll road operator CCR also performed well, contributing +0.13% to monthly performance.

CCR is Brazil's largest public infrastructure concession holder, operating concessions across motorways, urban mobility (sea ferries, subways, light rail) and airports. CCR performed well during the month of May following a string of successful new auction wins across the airport, toll-road and urban mobility sectors.

Chilean water company Aguas Andinas (-0.42%) was the largest detractor from monthly performance.

Aguas Andinas supplies drinking water and provides sewerage and treatment services to residential, commercial and industrial customers in Chile. Aguas was weak during the month of May as negative results coming out of the constitutional convention vote signalled significant weakness for the country's current conservative regime. Going forward, the results of the vote highlighted the potential for additional political turbulence in the leadup to the presidential elections.

All returns are in local currency.



Positioning and Outlook

On a regional level, the Strategy's largest exposure is in the U.S. & Canada (37%) and consists of exposure to regulated and contracted utilities (28%) and economically sensitive user pays infrastructure (9%).

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.

Monthly Stock Highlight

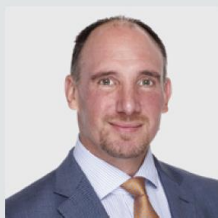
This month we review U.K. electric utility National Grid (NG).

National Grid is one of the world's largest publicly owned utilities, focused on transmission and distribution activities in electricity and gas. It owns and operates regulated electricity and gas network assets in both the U.K. and the U.S., which contribute about 95% of its earnings and equity value.

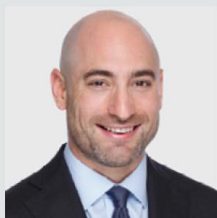
National Grid is a high-quality, low-risk, regulated business with regulatory certainty to 2021. The U.K. regulator, Ofgem, has a long history of incentive-based regulation resulting in predictable, stable, inflation-linked cash flows. National Grid's U.S. business operates in stable regulatory environments and has meaningfully improved returns following years of underperformance, with achieved returns now at 95% of allowed returns.

National Grid has significantly reduced U.K. exposure following the sale of its U.K. gas distribution, increasing the proportion of value from the higher-growth U.S. business to ~50%. National Grid has strong medium-term regulated asset base (RAB) growth of ~7% pa, driven predominantly by U.S. RAB growth of ~10% pa. The U.K. business has performed strongly in recent years, outperforming regulatory allowances. Whilst we expect the upcoming regulatory reset to be tougher than the current allowances, we believe the implied U.K. business value is overly discounted, providing an attractive investment opportunity.

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



Nick Langley



Shane Hurst



Charles Hamieh



Daniel Chu

Important Information

This material has been prepared for investment professionals, qualified investors and investment advisors only. This material presents information in a manner which is not suitable for retail investors and ClearBridge Investments Limited does not authorise the provision of this material to retail investors.

While the information contained in this document has been prepared with all reasonable care, ClearBridge Investments Limited and its related companies ("ClearBridge") accept no responsibility or liability for any errors, omissions or misstatements however caused. Any views expressed in this material are given as of the date of publication and such views are subject to change at any time.

This information is not personal advice. It has been prepared without taking account of individual objectives, financial situations or needs. Where an investment product is mentioned, potential investors should seek independent advice as to the suitability of the product to their investment needs. Reference to shares in a particular company, is not a recommendation to buy, sell or hold that stock. Investors should be aware that past performance is not indicative of future performance.

This information may contain forecasts, including in regard to targets, expected returns, PE ratios and dividend yields. Any such statements are based upon research undertaken by the ClearBridge investment team. This research incorporates ClearBridge's reasonable assumptions and beliefs concerning future developments and their potential effect but are subject to risks and uncertainties that may be beyond ClearBridge's control. Returns can be volatile, reflecting rises and falls in the value of underlying investments. Accordingly, ClearBridge does not provide any assurance or guarantee that future developments will be aligned with ClearBridge's expectations, and actual results may differ materially from those expected by ClearBridge at the time of writing.

The distribution of this document may be restricted in your jurisdiction. This document does not constitute an offer or solicitation in any jurisdiction in which to make such an offer or solicitation would be unlawful. It is your responsibility to ensure that any such product, security, service or investment outlined is available in your jurisdiction.

Issued and approved outside Canada and the United States of America by ClearBridge Investments Limited ("CIL"), registered office Level 13, 35 Clarence Street, Sydney, NSW 2000, Australia (ABN 84 119 339 052; AFSL 307 727).

In Canada and the United States of America, issued and approved by ClearBridge RARE Infrastructure (North America) Pty Ltd ("CBI RINA"), registered office Level 13, 35 Clarence Street, Sydney, NSW 2000, Australia (ACN 138 069 191). Neither CIL nor CBI RINA are registered as a dealer in any province in Canada. CIL and CBI RINA are not offering the securities of any investment fund that may be described in the materials in Canada or the United States. This material has not been approved or verified by the SEC or the OSC.

ClearBridge is wholly, indirectly owned by Franklin Resources, Inc., and part of ClearBridge Investments, LLC.

