

# Income Strategy

MONTHLY COMMENTARY

| JANUARY 2021



Our Global Listed Infrastructure funds performed broadly in line with infrastructure indices which underperformed general equities in January.

Market performance was muted, impacted by concerns of rising inflation, increasing COVID-19 cases, further mobility restrictions and slow vaccine rollouts.

Markets became increasingly concerned with inflation and increases in bond rates as a result of significant stimulus and central bank policies, increasing discount rates and reducing valuations. COVID-19 cases continued to increase, reaching new highs in many geographies, resulting in further mobility restrictions and, combined with the slower than expected rollout of vaccines, dampening expectations for a speedy recovery from the pandemic.

The Democratic majority in the U.S. Senate, albeit thin, opened the door for a range of policies, notably Biden's proposal for a further \$1.9 trillion of stimulus (in addition to \$900 million from December) and significant climate-related policies, including recommitting to the Paris Agreement, which are expected to further accelerate renewables growth.

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## Portfolio Performance

On a regional basis, North America was the top contributor to monthly performance (+0.34%), of which U.S. renewables utility NextEra Energy Partners (+0.77%) and Canadian energy infrastructure company Enbridge (+0.17%) were the lead performers.

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. Growth comes from the dropdown of assets from NEE and we anticipate this should allow NEP to provide 12%–15% dividend growth to 2024. During the month the share price of NEP benefited from the continued positive outlook for renewable energy following the Democratic win in the Georgia runoff elections.

Enbridge (ENB) owns and operates one of the largest oil and gas pipeline networks in North America. The company also owns regulated gas distribution utilities in Ontario, Canada. Enbridge shares rallied along with the energy sector, fuelled by a combination of a stronger oil price outlook, resulting from OPEC's recent commitment to curtail oil supply, and the expectation of economic normalisation as the COVID-19 vaccines get rolled out.

Turning to Asia Pacific, Australian electric utility Spark Infrastructure (+0.14%) also performed well.

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 January owing to progress by TransGrid on key transmission projects and regulatory requests.

Spanish electric utility Red Elctrica was the largest detractor from monthly performance (-0.23%).

Red Elctrica is engaged in the supply and transmission of electricity and is the sole high-voltage transmission agent and system operator in Spain. Shares retreated due to Spanish bond yields rising from lows in December as well as a general market pullback in Spain.

All returns are in local currency.

## Positioning and Outlook

On a regional level, the Strategy's largest exposure is in the U.S. & Canada (36%) and consists of exposure to regulated and contracted utilities (31%) and economically sensitive user pays infrastructure (5%).

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 Brazilian electric utility CPFL Energia and French toll road operator Vinci.

## Monthly Stock Highlight

This month we review U.S. energy infrastructure company Williams Companies.

Williams owns and operates natural gas pipelines and associated midstream assets in the U.S.

Williams natural gas pipeline and midstream assets are either regulated or under long-term contracts.

The many issues Williams faced have been resolved through recapitalisation, board changes, stabilised volumes and strategic asset sales. Since then, the business has been significantly derisked. Going forward, we expect the company to generate significant amounts of free cash flow as it has approached the end of its investment cycle. At current prices, the dividend yield and valuation are attractive, which is pricing in a significant energy transition. We believe the market underestimates the value and stability of the free cash flow that underpins the dividend.

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



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