

[Infrastructure Insights](#)[Portfolio Insights](#)

14 APR 2023

Income Strategy March Commentary

Overview

Our global listed infrastructure strategies outperformed infrastructure benchmarks and performed in line with global equities for the quarter.

The combination of peaking interest rates and inflation in conjunction with volatility in the global banking sector continues to result in elevated volatility. Europe has recently experienced some relief from the shock of high energy prices, and China continues its economic reopening post the easing of COVID restrictions.

Inflation continues to moderate, but remains elevated, with recent data showing economic strength making it difficult for central banks to loosen policy quickly. Although most economies maintain a tightening position, varying economic circumstances may see monetary policy diverge in the extent of tightening. Consensus expectations for recession has moderated significantly, with the duration and depth of a recession remaining the largest risk to investors.

Portfolio Performance

On a regional basis, Western Europe was the top contributor to quarterly performance (+2.75%), of which Portuguese renewables utility Energias de Portugal (+0.39%), Spanish gas utility Enagas (+0.39%) and U.K. electric utility National Grid (+0.38%) were the lead performers.

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, which is primarily onshore wind farms. EDP also operates electricity distribution and generation businesses in Brazil through its 50%-owned EDP Brasil. EDP's share price gain was driven by the improved outlook for 2023 earnings, as Iberian hydro recovered from earlier quarters, coupled with constructive growth targets laid out in its strategic plan update.

Enagas engages mainly in the transport, storage and regasification of natural gas in Spain. They are a natural monopoly in gas transport and have the largest share of regasification in Spain. They also have stakes in international assets, including 30% in U.S. midstream pipeline Tallgrass as a key contributor to associate earnings. Enagas rallied during the quarter as its FY22 results contained positive comments from the company on hydrogen, Tallgrass and control of operating expenses.

National Grid is one of the world's largest publicly owned utilities, focused on transmission and distribution activities in electricity and gas. National Grid's share price increased over the quarter given moderating bond rates and economic concerns, combined with improved tailwinds for the sector, including expectations of improved permitting for future projects.

Turning to North America, U.S. renewables utility Brookfield Renewables Partners (+0.41%) also contributed to quarterly performance.

Brookfield Renewables Partners is a pure-play renewables operator and developer headquartered in Canada, focused on international hydro, solar, wind and storage technology. As more private and public institutions announce ambitious carbon reduction initiatives, Brookfield's globally diversified, multi-technology renewables business makes



Nick Langley



Shane Hurst



Charles Hamieh



Daniel Chu

Share:     

[More Perspectives](#)

it an attractive partner. Brookfield's development pipeline stands at 18,000 MW, providing confidence that the company can meet its targeted double-digit cash flow growth through to 2025. Brookfield's share price rose together with most long-duration assets in North America as bond yields retreated from early March highs.

Brazilian electric utility Eletrobras (-0.26%) was the largest detractor from quarterly performance.

Centrais Elétricas Brasileiras (Eletrobras) is one of Brazil's largest integrated utilities, operating in the generation and transmission segments. A combination of weak spot power prices in Brazil and negative commentary from President Lula caused weakness in Eletrobras during the first quarter of 2023.

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 (40%) and consists of exposure to regulated and contracted utilities (27%) and economically sensitive user pays infrastructure (13%).

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. rail operator Union Pacific, Chinese gas utility China Resources Gas and U.S. communications company American Tower. Union Pacific is one of the largest freight railway networks in North America with a strong track record of execution with recent stock price weakness offering an opportunity to initiate a position at an attractive valuation. China Resources Gas is a natural gas distributor throughout China that is expected to benefit from a recovery in gas volumes following China's reopening.

The strategy also exited Spanish airport operator AENA and Brazilian electric utility Engie Brasil this quarter. For Engie Brasil, we see potential risks surrounding a potential asset sale transaction between its parent company Engie.

Quarterly Stock Highlight

This quarter 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.

Share:      

Related Perspectives

[Infrastructure Insights](#)

[Portfolio Insights](#)

Value Strategy March Commentary

Inflation continues to moderate, but remains elevated, with recent data showing economic strength making it difficult for central banks to loosen policy quickly.

[Read Full Article](#)



[Receive our latest perspectives, white papers and videos delivered directly to your inbox.](#) ✓

Copyright © 2023 ClearBridge Investments Limited

"ClearBridge Investments" refers to ClearBridge Investments Limited (AFSL 307727) (formerly known as RARE Infrastructure Limited (RARE)) and its representative ClearBridge Investments, LLC.

[Strategies](#)

[Infrastructure](#)

[Responsible Investing](#)

[Products](#)

[Perspectives](#)

[About Us](#)

[Contact Us](#)

[Adviser Online Access](#)

[Investor Online Access](#)

[Forms & Downloads](#)

[Privacy Notice](#)

[Terms Of Use](#)

[Follow Us On](#)

