ClearBridge Investments

Global Infrastructure Income Strategy

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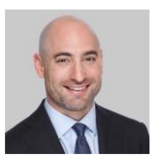

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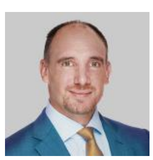

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Key Takeaways

- Our Strategy performed within the range of infrastructure indexes, which underperformed global equities for the quarter.
- On a regional basis, Western Europe was the top contributor to quarterly performance, followed by the U.S. and Canada.
- We expect an asynchronous global recovery, with the effect that the recovery peaks will be more spread out and therefore prolonged.

Market Overview

The ClearBridge Global Infrastructure Income Strategy performed within the range of infrastructure indexes, which underperformed global equities for the quarter.

Economic activity continues to rebound strongly with expected upgrades to consensus earnings and economic growth forecasts.

COVID-19 vaccine rollouts gained pace in many regions, although mobility restrictions remained significant as a result of the new Delta variant. With the combined effect of new restrictions and the continuation of vaccinations, the rate of confirmed cases globally has started to decrease.

Government policy remained supportive, with continued implementation of previously announced stimulus. Bond rates declined slightly in June, post the June FOMC meeting as the Fed continues with the view that the recent inflation spike is largely transitory, with upside risk able to be addressed through potential tapering discussions later in the year. Strong labor and wage data, combined with large increases in commodity prices, highlight the risk of inflation to the upside; however, significant slack in the labor markets is expected to contain inflation risk. Markets performed solidly on the back of strong economic data and confidence the Fed will act accordingly to contain inflation.

On a regional basis, Western Europe was the top contributor to quarterly performance, followed by the U.S. and Canada.

In Western Europe, U.K. electric utility National Grid contributed the most. 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's share price increased during the quarter following the announcement of its agreement to acquire WPD, a group of U.K. electricity distribution businesses, and sell part of its U.S. assets. It also announced its intention to dispose of a majority stake in its U.K. gas transmission business.

Airports and toll roads are still trading at meaningful discounts to pre-pandemic levels.

Turning to the U.S. and Canada, U.S. communications company Crown Castle and Canadian energy infrastructure company Enbridge were the lead performers.

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. Crown Castle performed well after the U.S. network operators announced plans to deploy 5G spectrum, with investment much larger and much sooner than the market was anticipating.

Enbridge 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's Line 3 Replacement Project received a favorable court ruling regarding the adequacy of its Environmental Impact Statement. This significantly lowers the execution risk for the project and enables the company to place the project into service later in the year.

Chilean water company Aguas Andinas was the largest detractor from quarterly 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 quarter as negative results coming out of the constitutional convention vote signaled significant weakness for the country's current conservative regime. The results of the vote highlighted the potential for additional political turbulence in the lead-up to the presidential elections.

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 (29%) and economically sensitive user pays infrastructure (8%).

During the quarter we initiated positions in U.K. water company Pennon and Spanish electric utility Iberdrola. We closed positions in U.S. infrastructure company Brookfield Infrastructure, Canadian electric utility Emera and Aguas Andinas.

We are positive on the outlook for infrastructure. Pipelines continue to perform well amid the recovery trade, as do toll roads in Europe as mobility restrictions are being rolled back. Airports in Europe and Australia continue to underperform, as the Delta variant and a slow vaccine rollout continues to impact traffic.

Renewables enjoyed a pull-forward in value in 2020 and have seen a pause in 2021, although they will continue to benefit from decarbonization as a large structural thematic. While normally a downward move for bond yields means a rally for utilities, the simultaneous weakness of utilities and bond yields recently is likely the result of the current quantitative easing program, seasonal factors, concerns around new COVID-19 variants and stabilizing economic activity.

The U.S. infrastructure bill is still being negotiated and will likely come in two packages; the first more certain and including spending on transmission upgrades benefiting the electrical grid and helping regulated utilities and renewables; the second, more focused on green infrastructure with proposed clean energy and nuclear tax credits, is less certain.

Regionally, the U.S. is ahead in terms of vaccinations, although Europe is catching up, with 52% of the U.K. population being fully immunized. We expect an asynchronous global recovery, with the effect that the recovery peaks will be more spread out and therefore prolonged. We are positioned for a growing recovery in Europe and are seeing airports and toll roads still trading at meaningful discounts to pre-pandemic levels. Our transport infrastructure exposure is primarily in the U.S., Europe and Australia, which we expect to be the strongest performers.

Portfolio Highlights

We believe an absolute return, inflation-linked benchmark is the most appropriate primary measure against which to evaluate the long-term performance of our infrastructure strategies. The approach ensures the focus of portfolio construction remains on delivering consistent absolute real returns over the long term.

On an absolute basis, the Strategy delivered gains across six of the 10 sectors in which it was invested (out of 11 total) in the second quarter, with the electric and toll roads sectors the leading contributors and the water, renewables and airports sectors the main detractors.

On a relative basis, measured against the S&P Global Infrastructure Index, the ClearBridge Global Infrastructure Income Strategy outperformed during the second quarter. Overall stock selection contributed to relative results, partially offset by sector allocation. Stock selection in the electric, toll roads and renewables sectors aided the most. An overweight to the communications sector and underweight to the airports sector were also beneficial. Meanwhile, stock selection in the water, airports and energy infrastructure sectors, an overweight to the renewables sector and an underweight to the energy infrastructure sector detracted.

On an individual stock basis, the largest contributors to absolute returns in the quarter were Crown Castle, Enbridge, Brazilian electric utility Transmissora Alianca De Energia Eletrica, National

Grid and Canadian energy infrastructure company Pembina Pipeline. The largest detractors were Aguas Andinas, Sydney Airport, Brookfield Renewable, U.S. renewables company Clearway Energy and Australian electric utility AusNet Services.

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