

ClearBridge

A Franklin Templeton Company



Daniel Chu CFA
Managing Director,
Portfolio Manager



Charles Hamieh
Managing Director,
Portfolio Manager



Shane Hurst
Managing Director,
Portfolio Manager



Nick Langley
Managing Director,
Portfolio Manager

Global Infrastructure Income Strategy

Key Takeaways

- ▶ Listed infrastructure trailed global equities in the fourth quarter, both delivering a more subdued end to a strong year of performance.
- ▶ European utilities outpaced U.S. utilities, while renewables also performed well, benefiting from their growing relevance in the AI buildout and policy derisking.
- ▶ We expect a continued constructive policy environment with rates maintaining a downward trajectory. This in conjunction with a further AI-related capacity additions should continue to support infrastructure investments.

Market Overview

Listed infrastructure trailed global equities in the fourth quarter, both delivering a more subdued end to a strong year of performance. Despite two cuts in short-term rates in the U.S. in the quarter, rate-sensitive sectors were pressured by higher longer-term bond yields and a higher-for-longer sentiment more generally. Continuing a catch-up trade and further helped by improving regulation, European utilities outpaced U.S. utilities. Renewables also performed well, benefiting from their growing relevance in the AI buildout and policy derisking.

Underperforming sectors included natural gas utilities and energy infrastructure pipelines, communication towers and North American rails. Higher production and storage levels and weaker weather forecasts for natural gas kept prices lower most of the quarter, weighing on shares of natural gas utilities and pipeline stocks. Elevated interest rates and lower growth drove largely negative performance from communication tower stocks. North American rails remained in something of a holding pattern as we await a recovery in freight volumes.

On a regional basis, Western Europe was the top portfolio contributor for quarter, with U.K. electric utility SSE and Spanish electric utility Iberdrola 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, combined cycle gas turbine), electricity networks, and retail businesses (primarily B2B). It is the U.K.'s largest renewable energy generator. SSE's share price rose as funding risks diminished and concerns around the U.K. macroeconomic outlook eased.

Iberdrola is a multinational integrated electric utility company headquartered in Spain and 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 delivered a solid capital markets day, with management raising guidance again at its third-quarter results.

U.S. electric utility OGE Energy and Spanish electric utility Redeia were the largest detractors.

OGE Energy operates the largest utility business in Oklahoma. Delays in the announcement of a data center deal weighed on shares during the quarter.

Redeia is engaged in the supply and transmission of electricity and is the sole high-voltage transmission agent and system operator in Spain. Negative sentiment surrounding a suboptimal outcome from the Spanish regulatory review for 2026–2031 weighed on Redeia's share price.

Outlook

Inflection in electricity demand and solid earnings growth helped listed infrastructure performance in 2025, and this looks set to continue in 2026, with the added benefit of lower nominal bond yields.

Electric utilities, which make up the bulk of our portfolio, continue to benefit from several tailwinds: the energy transition, as poles and wires are built out to connect renewables to the grid and EV charging stations (all regulated expenditure for utilities and earning regulated returns); the mitigation of and adaptation to climate change impacts on electricity networks, which is driving resiliency spend; and growing electricity demand, particularly from AI data centers, but also from growing industrial demand. These tailwinds support a strong earnings backdrop and continued conviction in a balanced exposure to utilities.

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 saw positive contributions from eight of 10 sectors in which it was invested in the quarter, with electric and water utilities the top contributors and energy infrastructure and communications detractors.

Relative to the FTSE Global Core Infrastructure 50/50 and on a U.S. dollar basis, the Strategy outperformed in the fourth quarter, driven

primarily by stock selection in the electric, water and gas utility sectors. A renewables overweight and communications underweight were also beneficial. Stock selection in the airports sector and a lack of ports holdings detracted.

On an individual stock basis, the top contributors to absolute returns in the quarter were SSE, Iberdrola, Italian electric utility Enel, U.S. electric utility NextEra Energy and U.S. renewables provider Clearway Energy. The main detractors were OGE Energy, Redeia, U.S. electric utility WEC Energy, Canadian gas utility Enbridge and U.S. communications tower operator Crown Castle.

During the quarter, we initiated positions in U.S. electric utilities Portland General Electric and Edison International, French electric utility Engie and Brazilian electric utility Axia Energia. We also exited our positions in Brazilian electric utility CPFL Energia, Crown Castle and WEC Energy.

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All returns are in local currency unless otherwise indicated.